

City of Southgate, Michigan

**Financial Report
with Supplemental Information
June 30, 2008**

City of Southgate, Michigan

Principal Officials Elected

Administrative

Mayor
Norma J. Wurmlinger

Clerk
Thomas Alexander

Treasurer
Sheryl Denman

Legislative

President of Council
Andrew J. Kandrevas

John Graziani
Patricia C. Ganzberger
Janice M. Ferencz
Carol M. Batko
Christopher P. Rollet
Phillip J. Rauch

District Judge

James A. Kandrevas

City of Southgate, Michigan

Principal Officials Appointed

City Administrator

Levon G. King

Assistant City Administrator/Finance Director

David Angileri

Department Heads

Charles Castle

Police Chief

John Woldkowski

Fire Chief

J. David Weidenbach

Director of Public Services

Robert Casanova

Chief Building Inspector

Ronald Jewell

Parks and Recreation Director

City Attorney

Edward M. Zelenak

City Engineer

Greg Tupancy

City Auditors

Plante & Moran, PLLC

Consultants

Wade Trim - Planning Consultants

City of Southgate, Michigan

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Southgate, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Southgate, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Southgate, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Southgate, Michigan as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement systems schedules of funding progress and employer contributions, and budgetary comparison schedules (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Mayor and
Members of the City Council
City of Southgate, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Southgate, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 17, 2008

City of Southgate, Michigan

Management's Discussion and Analysis

The City of Southgate, Michigan's 2008 annual report is presented in conformity with the requirements of GASB No. 34. This annual report consists of discussion and analysis of the City of Southgate, Michigan's (the "City") financial performance. This provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2008:

- Property taxes are the City's single largest source of revenue. The City's taxable value for fiscal year 2008 was \$887,352,516, which represents an increase of \$35,662,408, or 4.2 percent.
- The City closely monitors discretionary spending by performing periodic budget adjustments. As a result, fund balance in the General Fund increased by approximately \$76,000 despite certain revenue decreases as well as increases in expenditures.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Southgate, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2008 and 2007 (in thousands of dollars):

TABLE I

| | Governmental Activities | | Business-type Activities | | Total | |
|--|-------------------------|------------------|--------------------------|------------------|------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Assets | | | | | | |
| Current assets | \$ 19,233 | \$ 19,199 | \$ 7,360 | \$ 7,265 | \$ 26,593 | \$ 26,464 |
| Noncurrent assets | <u>62,613</u> | <u>62,404</u> | <u>34,204</u> | <u>31,807</u> | <u>96,817</u> | <u>94,211</u> |
| Total assets | 81,846 | 81,603 | 41,564 | 39,072 | 123,410 | 120,675 |
| Liabilities | | | | | | |
| Current liabilities | 5,412 | 6,010 | 1,912 | 1,457 | 7,324 | 7,467 |
| Long-term liabilities | <u>16,567</u> | <u>17,386</u> | <u>11,309</u> | <u>10,946</u> | <u>27,876</u> | <u>28,332</u> |
| Total liabilities | <u>21,979</u> | <u>23,396</u> | <u>13,221</u> | <u>12,403</u> | <u>35,200</u> | <u>35,799</u> |
| Net Assets | | | | | | |
| Invested in capital assets - Net of related debt | 47,180 | 46,232 | 21,020 | 19,340 | 68,200 | 65,572 |
| Restricted | 11,270 | 11,191 | 4,524 | 4,258 | 15,794 | 15,449 |
| Unrestricted | <u>1,417</u> | <u>784</u> | <u>2,799</u> | <u>3,071</u> | <u>4,216</u> | <u>3,855</u> |
| Total net assets | <u>\$ 59,867</u> | <u>\$ 58,207</u> | <u>\$ 28,343</u> | <u>\$ 26,669</u> | <u>\$ 88,210</u> | <u>\$ 84,876</u> |

The City's combined net assets increased 3.7 percent from a year ago, increasing from about \$85 million to about \$88.2 million. As we look at governmental activities separately from the business-type activities, we can see that net assets increased by \$1.6 million in governmental type and by \$1.7 million in business type. Business-type activities comprise about \$28 million of the total net assets.

Unrestricted net assets, the portion of net assets that can be used to finance day-to-day operations, increased by \$633,000 for governmental activities. The current level of unrestricted net assets for our governmental activities stands at \$1,417,000, or about 5.2 percent of expenditures.

City of Southgate, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year and as compared to the prior year (in thousands of dollars):

| | Governmental Activities | | Business-type Activities | | Total | |
|---------------------------------------|----------------------------|------------------|-----------------------------|------------------|------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Net Assets - Beginning of year | \$ 58,207 | \$ 56,430 | \$ 26,669 | \$ 24,711 | \$ 84,876 | \$ 81,141 |
| Revenue | | | | | | |
| Program revenue: | | | | | | |
| Charges for services | 5,094 | 5,742 | 7,307 | 6,686 | 12,401 | 12,428 |
| Operating grants and contributions | 2,598 | 2,665 | - | - | 2,598 | 2,665 |
| Capital grants and contributions | - | 39 | - | 157 | - | 196 |
| General revenue: | | | | | | |
| Property taxes: | | | | | | |
| City | 9,088 | 9,172 | - | - | 9,088 | 9,172 |
| Sanitation | 1,647 | 1,630 | - | - | 1,647 | 1,630 |
| Police and fire | 3,032 | 2,765 | - | - | 3,032 | 2,765 |
| Library | 729 | 735 | - | - | 729 | 735 |
| Streets | 1,603 | 1,557 | - | - | 1,603 | 1,557 |
| EPA | - | - | 880 | 1,196 | 880 | 1,196 |
| State-shared revenue | 3,710 | 3,202 | - | - | 3,710 | 3,202 |
| Gain on sale of asset | 11 | 8 | - | - | 11 | 8 |
| Unrestricted investment earnings | 861 | 1,096 | 173 | 171 | 1,034 | 1,267 |
| Transfers and other revenue | 40 | 40 | (40) | (40) | - | - |
| Total revenue | 28,413 | 28,651 | 8,320 | 8,170 | 36,733 | 36,821 |
| Program Expenses | | | | | | |
| General government | 3,313 | 4,521 | - | - | 3,313 | 4,521 |
| Public safety | 9,696 | 9,508 | - | - | 9,696 | 9,508 |
| Public works | 9,643 | 8,557 | - | - | 9,643 | 8,557 |
| 28th District Court | 1,104 | 1,122 | - | - | 1,104 | 1,122 |
| Recreation and culture | 2,113 | 2,119 | - | - | 2,113 | 2,119 |
| Interest on long-term debt | 884 | 1,047 | - | - | 884 | 1,047 |
| Golf course | - | - | 485 | 544 | 485 | 544 |
| Water and sewer | - | - | 6,161 | 5,668 | 6,161 | 5,668 |
| Total expenses | 26,753 | 26,874 | 6,646 | 6,212 | 33,399 | 33,086 |
| Change in Net Assets | 1,660 | 1,777 | 1,674 | 1,958 | 3,334 | 3,735 |
| Net Assets - End of year | <u>\$ 59,867</u> | <u>\$ 58,207</u> | <u>\$ 28,343</u> | <u>\$ 26,669</u> | <u>\$ 88,210</u> | <u>\$ 84,876</u> |

City of Southgate, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

The City's total governmental revenues decreased by approximately \$238,000 from the prior year. The City had increases in property taxes but decreases in unrestricted investment earnings and charges for services, which contributed to the decrease.

Overall, current year expenses decreased from the prior year by approximately \$121,000. Expenses remained relatively consistent with the prior year, despite large increases in healthcare costs as well as police and fire overtime. To offset these increases, the City closely monitored its spending in all other areas. The increase in the public works expenses is largely due to costs incurred for various street paving projects. The decrease in the general government expenses is attributed mainly due to construction costs being capitalized versus expensed in the current year.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund and the Golf Course Fund. We provide water to residents from the Detroit water system. We also provide sewage treatment through Wayne County downriver sewage disposal system. In the Golf Course Fund, the two biggest factors affecting business are weather and the economy. Since April 2004, the club house has been under new management and the City continues to focus on improving the operating results of the golf course. In the current year, the Water and Sewer Fund had operating income of \$204,194 while the Golf Course Fund had an operating loss of \$29,869.

The City's Funds

The analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2008 include the General Fund, the CDBG Fund, the Street Paving Fund, and the Building Authority Fund.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$9,600,000 in the current year. The budget in the General Fund is basically a "maintenance" budget, which means it increases modestly from year to year.

City of Southgate, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

During the current year, actual revenues exceeded budget by \$340,662 primarily due to actual interest and rental earnings exceeding budgeted amounts. The City departments overall stayed within budget with the exception of public works. Also, transfers to other funds exceeded the budget. Public works actual expenditures exceed budgeted amounts by \$223,082 primarily due to increases in supplies expenses and gas and oil prices. Transfers to other funds exceeded budget by \$53,583 due to unbudgeted transfers made to the Capital Improvement Fund. Overall, the General Fund's fund balance increased by \$76,525 in the current year, from \$2,092,571 a year ago to \$2,169,096 at June 30, 2008.

Capital Asset and Debt Administration

The City continues to collect a dedicated millage approved by the voters in November 2001 for improvements to streets in conjunction with a five-year improvement plan.

At the end of 2008, the City had approximately \$95,364,000 (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines as well as roads within the City.

Economic Factors and Next Year's Budgets and Rates

Because of the impact of Proposal A, however, the City needs to continue to watch its budget very closely. The statewide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow less than by inflation, before considering new property additions.

We anticipate that the water and sewer rates will have to increase somewhat in 2009. We are in the process of evaluating the amount of increase that will be needed and will likely have a public hearing in 2009 to discuss the need for such an increase.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we invite you to contact the administration offices at City Hall.

City of Southgate, Michigan

Statement of Net Assets June 30, 2008

| | Primary Government | | | Component |
|---|--------------------|---------------|---------------|--------------|
| | Governmental | Business-type | Total | Units |
| | Activities | Activities | | |
| Assets | | | | |
| Cash and investments (Note 3) | \$ 13,379,314 | \$ 1,001,026 | \$ 14,380,340 | \$ 2,481,737 |
| Receivables - Net (Note 4) | 3,012,348 | 2,163,544 | 5,175,892 | - |
| Internal balances (Note 6) | 343,931 | (343,931) | - | - |
| Due from component unit | 599,637 | - | 599,637 | - |
| Due from other governmental units | 1,563,025 | - | 1,563,025 | 164,544 |
| Prepaid items and other assets | 334,306 | 11,976 | 346,282 | 379,102 |
| Inventories | - | 3,032 | 3,032 | - |
| Restricted assets (Note 9) | - | 4,523,885 | 4,523,885 | - |
| Investment in joint ventures (Note 15) | - | 931,021 | 931,021 | - |
| Net pension asset (Note 12) | 522,179 | - | 522,179 | - |
| Capital assets - Net (Note 5): | | | | |
| Assets not being depreciated | 4,816,202 | 670,063 | 5,486,265 | - |
| Assets being depreciated | 57,275,294 | 32,602,857 | 89,878,151 | - |
| Total assets | 81,846,236 | 41,563,473 | 123,409,709 | 3,025,383 |
| Liabilities | | | | |
| Accounts payable | 727,262 | 760,284 | 1,487,546 | 35,640 |
| Accrued and other liabilities | 879,099 | 57,356 | 936,455 | - |
| Deferred revenue (Note 4) | 1,109,584 | - | 1,109,584 | - |
| Due to primary government (Note 6) | - | - | - | 599,637 |
| Due to other governmental units | 243,588 | - | 243,588 | - |
| Compensated absences and other (Notes 1 and 7): | | | | |
| Due within one year | 1,606,807 | - | 1,606,807 | - |
| Due in more than one year | 2,501,705 | 150,006 | 2,651,711 | - |
| Long-term debt (Notes 1 and 7): | | | | |
| Due within one year | 845,668 | 944,472 | 1,790,140 | - |
| Due in more than one year | 14,065,503 | 11,308,508 | 25,374,011 | - |
| Total liabilities | 21,979,216 | 13,220,626 | 35,199,842 | 635,277 |
| Net Assets | | | | |
| Invested in capital assets - Net of related debt | 47,180,325 | 21,019,940 | 68,200,265 | - |
| Restricted: | | | | |
| Street expenses | 7,417,712 | - | 7,417,712 | - |
| Sanitation, police, and fire retirement (Note 10) | 540,283 | - | 540,283 | - |
| Southgate/Wyandotte drain operation and maintenance | 2,184,291 | - | 2,184,291 | - |
| Library levy | 905,892 | - | 905,892 | - |
| Narcotics enforcement activity | 123,324 | - | 123,324 | - |
| Sewer debt and capital outlay | - | 4,523,885 | 4,523,885 | - |
| Unrestricted | 1,515,193 | 2,799,022 | 4,314,215 | 2,390,106 |
| Total net assets | \$ 59,867,020 | \$ 28,342,847 | \$ 88,209,867 | \$ 2,390,106 |

City of Southgate, Michigan

| Functions/Programs | Program Revenues | | | |
|--|----------------------|----------------------|------------------------------------|----------------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary government: | | | | |
| Governmental activities: | | | | |
| General government | \$ 3,312,921 | \$ 1,018,547 | \$ 204,273 | \$ - |
| Public safety | 9,697,125 | 99,314 | 4,610 | - |
| Public services | 9,642,588 | 1,569,678 | 1,590,582 | - |
| Cultural and recreation | 2,112,709 | 785,076 | 751,279 | - |
| 28th District Court | 1,103,661 | 1,621,342 | 46,874 | - |
| Interest on long-term debt | 884,317 | - | - | - |
| Total governmental activities | 26,753,321 | 5,093,957 | 2,597,618 | - |
| Business-type activities: | | | | |
| Water and sewer | 6,161,511 | 6,823,515 | - | - |
| Golf course | 484,809 | 483,531 | - | - |
| Total business-type activities | 6,646,320 | 7,307,046 | - | - |
| Total primary government | <u>\$ 33,399,641</u> | <u>\$ 12,401,003</u> | <u>\$ 2,597,618</u> | <u>\$ -</u> |
| Component units: | | | | |
| Tax Increment Financing Authority | \$ 730,414 | \$ 11,750 | \$ - | \$ 100,000 |
| Downtown Development Authority | 170,722 | - | - | - |
| Southeastern Michigan Information Alliance | 148,770 | 304,845 | - | - |
| Total component units | <u>\$ 1,049,906</u> | <u>\$ 316,595</u> | <u>\$ -</u> | <u>\$ 100,000</u> |
| General revenues: | | | | |
| Property taxes: | | | | |
| City | | | | |
| Sanitation | | | | |
| Police and fire | | | | |
| Library | | | | |
| Streets | | | | |
| EPA | | | | |
| Component unit | | | | |
| State-shared revenues | | | | |
| Loss on disposal of capital assets | | | | |
| Unrestricted investment earnings | | | | |
| Transfers | | | | |
| Total general revenues, proceeds, | | | | |
| and transfers | | | | |
| Change in Net Assets | | | | |
| Net Assets - Beginning of year | | | | |
| Net Assets - End of year | | | | |

Statement of Activities Year Ended June 30, 2008

| Net (Expense) Revenue and Changes in Net Assets | | | |
|---|-----------------------------|----------------------|---------------------|
| Primary Government | | | |
| Governmental Activities | Business-type Activities | Total | Component Units |
| \$ (2,090,101) | \$ - | \$ (2,090,101) | \$ - |
| (9,593,201) | - | (9,593,201) | - |
| (6,482,328) | - | (6,482,328) | - |
| (576,354) | - | (576,354) | - |
| 564,555 | - | 564,555 | - |
| (884,317) | - | (884,317) | - |
| (19,061,746) | - | (19,061,746) | - |
| - | 662,004 | 662,004 | - |
| - | (1,278) | (1,278) | - |
| - | 660,726 | 660,726 | - |
| (19,061,746) | 660,726 | (18,401,020) | - |
| - | - | - | (618,664) |
| - | - | - | (170,722) |
| - | - | - | 156,075 |
| - | - | - | (633,311) |
| 9,088,026 | - | 9,088,026 | - |
| 1,647,012 | - | 1,647,012 | - |
| 3,032,234 | - | 3,032,234 | - |
| 729,376 | - | 729,376 | - |
| 1,602,768 | - | 1,602,768 | - |
| - | 880,146 | 880,146 | - |
| - | - | - | 1,396,904 |
| 3,709,977 | - | 3,709,977 | - |
| 11,273 | - | 11,273 | - |
| 860,910 | 172,577 | 1,033,487 | 63,275 |
| 40,000 | (40,000) | - | - |
| 20,721,576 | 1,012,723 | 21,734,299 | 1,460,179 |
| 1,659,830 | 1,673,449 | 3,333,279 | 826,868 |
| 58,207,190 | 26,669,398 | 84,876,588 | 1,563,238 |
| \$ 59,867,020 | \$ 28,342,847 | \$ 88,209,867 | \$ 2,390,106 |

City of Southgate, Michigan

Governmental Funds Balance Sheet June 30, 2008

| | Major Funds | | | | | |
|--|---------------------|---|-----------------------|---------------------|--------------------------------|-----------------------|
| | General | Community Development Block Grant | Building Authority | Street Paving | Other Nonmajor Governmental | Total Governmental |
| | Fund | Fund | Fund | Fund | Funds | Funds |
| Assets | | | | | | |
| Cash and investments | \$ 1,718,266 | \$ - | \$ 88,290 | \$ 2,389,458 | \$ 9,042,069 | \$ 13,238,083 |
| Receivables - Net | 789,671 | 946,007 | - | 72,363 | 1,215,177 | 3,023,218 |
| Due from other funds | 317,730 | 78,327 | - | - | 283,556 | 679,613 |
| Due from component unit | 33,759 | - | - | 250,000 | 315,878 | 599,637 |
| Due from other governmental units | 609,933 | 26,851 | - | - | 328,089 | 964,873 |
| Prepaid costs and other assets | 331,105 | 1,153 | - | - | 2,048 | 334,306 |
| Total assets | <u>\$ 3,800,464</u> | <u>\$ 1,052,338</u> | <u>\$ 88,290</u> | <u>\$ 2,711,821</u> | <u>\$ 11,186,817</u> | <u>\$ 18,839,730</u> |
| Liabilities and Fund Balances | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | \$ 514,605 | \$ - | \$ - | \$ 98,168 | \$ 73,362 | \$ 686,135 |
| Accrued and other liabilities | 686,199 | - | - | - | 7,570 | 693,769 |
| Due to other funds | 114,375 | 85,493 | - | - | 135,814 | 335,682 |
| Due to other governmental units | 243,588 | - | - | - | - | 243,588 |
| Deferred revenue | 72,601 | 966,845 | - | - | 81,008 | 1,120,454 |
| Total liabilities | 1,631,368 | 1,052,338 | - | 98,168 | 297,754 | 3,079,628 |
| Fund Balances | | | | | | |
| Reserved for other purposes (Note 10) | 540,283 | - | - | - | - | 540,283 |
| Unreserved: | | | | | | |
| Designated - Reported in: | | | | | | |
| General Fund | 529,000 | - | - | - | - | 529,000 |
| Special Revenue Funds | - | - | - | 2,000,000 | 1,330,000 | 3,330,000 |
| Capital Projects Fund | - | - | - | - | 1,280,000 | 1,280,000 |
| Undesignated - Reported in: | | | | | | |
| General Fund | 1,099,813 | - | - | - | - | 1,099,813 |
| Special Revenue Funds | - | - | - | 613,653 | 7,533,944 | 8,147,597 |
| Capital Projects Fund | - | - | - | - | 533,586 | 533,586 |
| Debt Service Funds | - | - | 88,290 | - | 211,533 | 299,823 |
| Total fund balances | <u>2,169,096</u> | <u>-</u> | <u>88,290</u> | <u>2,613,653</u> | <u>10,889,063</u> | <u>15,760,102</u> |
| Total liabilities and fund balances | <u>\$ 3,800,464</u> | <u>\$ 1,052,338</u> | <u>\$ 88,290</u> | <u>\$ 2,711,821</u> | <u>\$ 11,186,817</u> | |

Amounts reported for governmental activities in the statement of net assets are different because:

| | |
|--|--------------|
| Capital assets used in governmental activities are not financial resources and are not reported in the funds | 62,091,496 |
| Net pension asset is not a financial resource and is not reported in the funds | 522,179 |
| Accrued interest payable on governmental debt is not reported in the funds | (185,330) |
| State-shared revenue not received within 60 days is not reported in the funds | 598,152 |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds | (19,019,683) |
| A portion of Internal Service Funds is included as part of governmental activities | 100,104 |

Net assets of governmental activities \$ 59,867,020

City of Southgate, Michigan

Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) Year Ended June 30, 2008

| | Major Funds | | | | | Total Governmental Funds |
|---|---------------------|---|-------------------------------|-----------------------|--|--------------------------------|
| | General Fund | Community Development Block Grant Fund | Building Authority Fund | Street Paving Fund | Other Nonmajor Governmental Funds | |
| Revenues | | | | | | |
| Property taxes | \$ 13,767,272 | \$ - | \$ - | \$ 1,602,768 | \$ 729,376 | \$ 16,099,416 |
| Federal sources | 9,731 | 362,550 | - | - | - | 372,281 |
| State sources | 3,342,991 | - | - | - | 1,590,582 | 4,933,573 |
| Charges for services | 909,847 | - | - | - | 159,852 | 1,069,699 |
| Licenses and permits | 378,873 | - | - | - | - | 378,873 |
| Fines and forfeitures | 1,411,815 | - | - | - | - | 1,411,815 |
| Interest and rentals | 1,044,059 | - | 5,564 | 78,232 | 312,740 | 1,440,595 |
| Special assessments | - | - | - | - | 1,237,950 | 1,237,950 |
| Other | 51,040 | - | 686,964 | - | 221,101 | 959,105 |
| Total revenues | 20,915,628 | 362,550 | 692,528 | 1,681,000 | 4,251,601 | 27,903,307 |
| Expenditures - Current | | | | | | |
| General government | 4,449,901 | - | - | - | 208,147 | 4,658,048 |
| Public services | 4,696,991 | 339,501 | - | 2,074,243 | 3,162,365 | 10,273,100 |
| Public safety | 9,646,106 | - | - | - | 84,568 | 9,730,674 |
| Cultural and recreation | 1,485,682 | - | - | - | - | 1,485,682 |
| Capital outlay | - | - | - | - | 19,636 | 19,636 |
| Debt service | - | - | 1,102,082 | - | 228,221 | 1,330,303 |
| Total expenditures | 20,278,680 | 339,501 | 1,102,082 | 2,074,243 | 3,702,937 | 27,497,443 |
| Excess of Revenues Over (Under) Expenditures | 636,948 | 23,049 | (409,554) | (393,243) | 548,664 | 405,864 |
| Other Financing Sources (Uses) | | | | | | |
| Transfers in | - | - | 414,593 | - | 655,238 | 1,069,831 |
| Transfers out | (560,423) | - | - | - | (469,408) | (1,029,831) |
| Total other financing sources (uses) | (560,423) | - | 414,593 | - | 185,830 | 40,000 |
| Net Change in Fund Balances | 76,525 | 23,049 | 5,039 | (393,243) | 734,494 | 445,864 |
| Fund Balances (Deficit) - Beginning of year | 2,092,571 | (23,049) | 83,251 | 3,006,896 | 10,154,569 | 15,314,238 |
| Fund Balances - End of year | \$ 2,169,096 | \$ - | \$ 88,290 | \$ 2,613,653 | \$ 10,889,063 | \$ 15,760,102 |

City of Southgate, Michigan

Governmental Funds **Reconciliation of the Statement of Revenues, Expenditures,** **and Changes in Fund Balances (Deficit) of Governmental Funds** **to the Statement of Activities** **Year Ended June 30, 2008**

| | | |
|---|-----------|----------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ | 445,864 |
|---|-----------|----------------|

Amounts reported for governmental activities in the statement of activities are different because:

| | |
|---|-------------|
| Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation | 2,532,691 |
| Depreciation on capital assets reported on governmental funds report as capital outlays expenditures | (2,634,038) |
| Governmental funds do not report a gain or loss on the disposal of assets, but record proceeds from the disposal as revenue in the statement of activities, the gain or loss on disposal is calculated based on the net book value of the asset and the proceeds received | (7,653) |
| Change in the net pension asset is recorded on the statement of activities | 69,257 |
| Net change in revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33) | (23,049) |
| Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) | 807,833 |
| Accrued interest payable on governmental debt is recorded in the statement of activities | (185,330) |
| State-shared revenue earned but not received within 60 days of year end is recorded on the statement of activities | 598,152 |
| Increase in accumulated employee sick and vacation pay, as well as estimated general liability claims, is recorded when incurred in the statement of activities | (152,453) |
| Contributed assets are recorded on the statement of activities | 249,200 |
| Internal Service Funds are also included as governmental activities | (40,644) |

| | | |
|--|-----------|-------------------------|
| Change in Net Assets of Governmental Activities | \$ | <u>1,659,830</u> |
|--|-----------|-------------------------|

City of Southgate, Michigan

Proprietary Funds Statement of Net Assets June 30, 2008

| | Enterprise Funds | | | Internal Service Fund - Workers' Compensation |
|---|----------------------|-------------------|----------------------|---|
| | Water and Sewer | Golf Course | Total | |
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 795,954 | \$ 110,916 | \$ 906,870 | \$ 235,387 |
| Receivables - Net | 2,160,964 | 2,580 | 2,163,544 | - |
| Inventories | 3,032 | - | 3,032 | - |
| Other | 11,976 | - | 11,976 | - |
| Total current assets | 2,971,926 | 113,496 | 3,085,422 | 235,387 |
| Noncurrent assets: | | | | |
| Restricted assets (Note 9) | 4,523,885 | - | 4,523,885 | - |
| Investment in joint ventures (Note 15) | 931,021 | - | 931,021 | - |
| Capital assets | 32,544,512 | 728,408 | 33,272,920 | - |
| Total noncurrent assets | 37,999,418 | 728,408 | 38,727,826 | - |
| Total assets | 40,971,344 | 841,904 | 41,813,248 | 235,387 |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable | 717,488 | 15,377 | 732,865 | 18,546 |
| Accrued and other liabilities | 45,947 | 11,409 | 57,356 | 50,000 |
| Due to other funds | 21,091 | 322,840 | 343,931 | - |
| Current portion of long-term debt | 944,472 | - | 944,472 | - |
| Total current liabilities | 1,728,998 | 349,626 | 2,078,624 | 68,546 |
| Noncurrent liabilities: | | | | |
| Provision for compensated absences - Net of current portion | 150,006 | - | 150,006 | - |
| Long-term debt - Net of current portion | 11,308,508 | - | 11,308,508 | - |
| Total noncurrent liabilities | 11,458,514 | - | 11,458,514 | - |
| Total liabilities | 13,187,512 | 349,626 | 13,537,138 | 68,546 |
| Net Assets | | | | |
| Invested in capital assets - Net of related debt | 20,291,532 | 728,408 | 21,019,940 | - |
| Restricted | 4,523,885 | - | 4,523,885 | - |
| Unrestricted | 2,968,415 | (236,130) | 2,732,285 | 166,841 |
| Total net assets | <u>\$ 27,783,832</u> | <u>\$ 492,278</u> | 28,276,110 | <u>\$ 166,841</u> |
| Amounts reported for business-type activities in the statement of net assets are different because a portion of Internal Service Funds is included as part of business-type activities | | | | 66,737 |
| Net assets of business-type activities | | | <u>\$ 28,342,847</u> | |

City of Southgate, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2008

| | Enterprise Funds | | | Governmental Activities - Internal Service Fund - Workers' Compensation |
|--|----------------------|-------------------|----------------------|---|
| | Water and Sewer | Golf Course | Total | |
| Operating Revenues | | | | |
| Water consumption | \$ 2,259,025 | \$ - | \$ 2,259,025 | \$ - |
| Sewage disposal charges | 2,890,511 | - | 2,890,511 | - |
| Assessments | 673,870 | - | 673,870 | - |
| Other | 196,916 | - | 196,916 | 44,975 |
| Greens fees and miscellaneous | - | 454,940 | 454,940 | - |
| Total operating revenues | 6,020,322 | 454,940 | 6,475,262 | 44,975 |
| Operating Expenses | | | | |
| Cost of water produced/purchased | 1,535,065 | - | 1,535,065 | - |
| Cost of sewage treatment | 1,266,540 | - | 1,266,540 | - |
| Operation and maintenance | 1,642,759 | 426,833 | 2,069,592 | - |
| Overhead and other | 460,878 | 21,589 | 482,467 | - |
| Depreciation | 910,886 | 36,387 | 947,273 | - |
| Contractual services | - | - | - | 121,977 |
| Total operating expenses | 5,816,128 | 484,809 | 6,300,937 | 121,977 |
| Operating Income (Loss) | 204,194 | (29,869) | 174,325 | (77,002) |
| Nonoperating Revenue (Expenses) | | | | |
| Property tax collections - EPA levy | 880,146 | - | 880,146 | - |
| Loss on sale of asset | 11,721 | - | 11,721 | - |
| Investment income | 164,935 | 3,937 | 168,872 | 9,262 |
| Interest expense | (314,582) | - | (314,582) | - |
| Income (Loss) - Before contributions | 946,414 | (25,932) | 920,482 | (67,740) |
| Capital Contributions | 791,472 | 28,591 | 820,063 | - |
| Transfers Out | (40,000) | - | (40,000) | - |
| Change in Net Assets | 1,697,886 | 2,659 | 1,700,545 | (67,740) |
| Net Assets - Beginning of year | 26,085,946 | 489,619 | 26,575,565 | 234,581 |
| Net Assets - End of year | \$ 27,783,832 | \$ 492,278 | \$ 28,276,110 | \$ 166,841 |
| Net Change in Net Assets | | | \$ 1,700,545 | |
| Total Enterprise Funds - Internal Service Funds are also included as business-type activities | | | (27,096) | |
| Change in Net Assets of Business-type Activities | | | \$ 1,673,449 | |

City of Southgate, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2008

| | Enterprise Funds | | Internal Service Fund - Workers' Compensation |
|--|---------------------|-------------------|---|
| | Water and Sewer | Golf Course | |
| Cash Flows from Operating Activities | | | |
| Receipts from customers | \$ 6,319,498 | \$ 453,674 | \$ 44,975 |
| Payments to suppliers | (2,554,306) | (437,030) | - |
| Payments to employees | (2,083,206) | (21,741) | - |
| Internal activity - Payments from other funds | (57,644) | - | - |
| Claims paid | - | - | (106,053) |
| Net cash provided by (used in) operating activities | 1,624,342 | (5,097) | (61,078) |
| Cash Flows from Noncapital and Related Financing Activities - | | | |
| Interfund transfers | (40,000) | - | - |
| Cash Flows from Capital and Related Financing Activities | | | |
| Purchase of capital assets | (995,078) | (19,598) | - |
| Proceeds from sale of assets | 121,001 | - | - |
| Principal and interest paid on capital debt | (1,216,415) | - | - |
| Property tax collection | 880,146 | - | - |
| Net cash used in capital and related financing activities | (1,210,346) | (19,598) | - |
| Cash Flows from Investing Activities - Interest received on investments | 164,935 | 3,937 | 9,262 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 538,931 | (20,758) | (51,816) |
| Cash and Cash Equivalents - Beginning of year | 2,263,837 | 131,674 | 287,203 |
| Cash and Cash Equivalents - End of year | \$ 2,802,768 | \$ 110,916 | \$ 235,387 |
| Balance Sheet Classification of Cash and Cash Equivalents | | | |
| Cash and investments | \$ 795,954 | \$ 110,916 | \$ 235,387 |
| Restricted investments (Note 9) | 2,006,814 | - | - |
| Total cash and cash equivalents | \$ 2,802,768 | \$ 110,916 | \$ 235,387 |
| Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities | | | |
| Operating income (loss) | \$ 204,194 | \$ (29,869) | \$ (77,002) |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | | | |
| Depreciation and amortization | 910,886 | 36,387 | - |
| Changes in assets and liabilities: | | | |
| Receivables | 237,031 | (1,266) | - |
| Other assets | 62,145 | - | - |
| Accounts payable | 247,299 | (7,702) | 15,924 |
| Accrued and other liabilities | 2,599 | (152) | - |
| Compensated absences | 17,832 | - | - |
| Interfund activity | (57,644) | (2,495) | - |
| Net cash provided by (used in) operating activities | \$ 1,624,342 | \$ (5,097) | \$ (61,078) |

Noncash Investing, Capital, and Financing Activities - The Water and Sewer Fund had asset additions of \$791,472 that were contributed to the City and \$1,453,160 of asset additions received in exchange for debt. The contributions were water and sewer lines constructed by developers. The golf course received a capital asset contribution of \$28,591.

City of Southgate, Michigan

Fiduciary Funds Statement of Fiduciary Net Assets June 30, 2008

| | Pension and Other Employee Benefit Trust Funds | Agency Funds |
|--|---|-----------------------------|
| | <hr/> | <hr/> |
| Assets | | |
| Cash and cash equivalents | \$ 9,336,320 | \$ 155,866 |
| Investments: | | |
| U.S. government securities | 6,401,792 | - |
| Stocks and mutual funds | 49,566,020 | - |
| Bonds | 5,325,546 | - |
| Mortgage-backed securities | 2,875,427 | - |
| Receivables - Employer | 336,335 | - |
| | <hr/> | <hr/> |
| Total assets | 73,841,440 | <u><u>\$ 155,866</u></u> |
| Liabilities | | |
| Accounts payable | 1,278,425 | \$ 17,848 |
| Due to other governmental units | - | 15,943 |
| Cash bonds and deposits | - | 122,075 |
| | <hr/> | <hr/> |
| Total liabilities | 1,278,425 | <u><u>\$ 155,866</u></u> |
| Net Assets - Held in trust for pension and other employee benefits | | <u><u>\$ 72,563,015</u></u> |

City of Southgate, Michigan

Fiduciary Funds Statement of Changes in Fiduciary Net Assets Year Ended June 30, 2008

| | Pension and Other Employee Benefit Trust Funds |
|---|--|
| Additions | |
| Investment income (loss): | |
| Interest and dividends | \$ 1,533,404 |
| Net decrease in fair value of investments | (5,545,071) |
| Investment expense | <u>(575,665)</u> |
| Net investment loss | (4,587,332) |
| Contributions: | |
| Employer | 4,070,313 |
| Employee | <u>438,355</u> |
| Total contributions | <u>4,508,668</u> |
| Total additions | (78,664) |
| Deductions | |
| Benefit payments | 6,445,256 |
| Refunds of contributions | <u>35,416</u> |
| Total deductions | <u>6,480,672</u> |
| Net Decrease in Net Assets Held for Pension Benefits | (6,559,336) |
| Net Assets Held in Trust for Pension and Other Employee Benefits | |
| Beginning of year | <u>79,122,351</u> |
| End of year | <u>\$ 72,563,015</u> |

City of Southgate, Michigan

Component Units Statement of Net Assets June 30, 2008

| | Tax Increment Financing Authority | Downtown Development Authority | Southeastern Michigan Information Alliance | Total |
|-----------------------------------|---|--------------------------------------|---|---------------------|
| Assets | | | | |
| Cash and investments | \$ 1,545,209 | \$ 714,850 | \$ 221,678 | \$ 2,481,737 |
| Due from other governmental units | - | - | 164,544 | 164,544 |
| Other | - | - | 379,102 | 379,102 |
| Total assets | 1,545,209 | 714,850 | 765,324 | 3,025,383 |
| Liabilities | | | | |
| Accounts payable | - | 29,664 | 5,976 | 35,640 |
| Due to primary government | 250,000 | - | 349,637 | 599,637 |
| Total liabilities | 250,000 | 29,664 | 355,613 | 635,277 |
| Net Assets - Unrestricted | \$ 1,295,209 | \$ 685,186 | \$ 409,711 | \$ 2,390,106 |

City of Southgate, Michigan

| | <u>Program Revenues</u> | | |
|---|----------------------------|---------------------------------|---|
| | <u>Expenses</u> | <u>Charges for Services</u> | <u>Capital Grants and Contributions</u> |
| Tax Increment Financing Authority - | | | |
| Redevelopment | \$ 730,414 | \$ 11,750 | \$ 100,000 |
| Downtown Development Authority - | | | |
| General government | 170,722 | - | - |
| Southeastern Michigan Information Alliance - | | | |
| Public safety | <u>148,770</u> | <u>304,845</u> | <u>-</u> |
| Total governmental activities | <u>\$ 1,049,906</u> | <u>\$ 316,595</u> | <u>\$ 100,000</u> |
| General revenues: | | | |
| Property taxes | | | |
| Interest | | | |
| Total general revenues | | | |
| Change in Net Assets | | | |
| Net Assets - Beginning of year | | | |
| Net Assets - End of year | | | |

**Component Units
Statement of Activities
Year Ended June 30, 2008**

| Net (Expense) Revenue and Changes in Net Assets | | | |
|--|--------------------------------------|---|---------------------|
| Tax Incremental Financing Authority | Downtown Development Authority | Southeastern Michigan Information Alliance | Total |
| \$ (618,664) | \$ - | \$ - | \$ (618,664) |
| - | (170,722) | - | (170,722) |
| - | - | 156,075 | 156,075 |
| (618,664) | (170,722) | 156,075 | (633,311) |
| 1,071,237 | 325,667 | - | 1,396,904 |
| 38,213 | 18,237 | 6,825 | 63,275 |
| 1,109,450 | 343,904 | 6,825 | 1,460,179 |
| 490,786 | 173,182 | 162,900 | 826,868 |
| 804,423 | 512,004 | 246,811 | 1,563,238 |
| <u>\$ 1,295,209</u> | <u>\$ 685,186</u> | <u>\$ 409,711</u> | <u>\$ 2,390,106</u> |

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Southgate, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Southgate:

Reporting Entity

The City of Southgate is governed by an elected mayor and elected seven-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are separate legal entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

Blended Component Units - The City of Southgate Building Authority (the "Building Authority") is governed by a board that is appointed by the mayor and approved by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its sole purpose is to finance and construct the City's public buildings. The City is involved in the purchase, by lease contract, of recreation facilities and related improvements and a library building addition from the Building Authority. Building Authority operations consist of the issuance and repayment of debt and the construction of facilities. The financial statements of the Building Authority are consolidated with the financial statements of the City as follows:

- a. The assets of the Building Authority held for payment of outstanding bond issues are reported in the Debt Service Funds.
- b. Fixed assets (completed construction projects) and remaining amounts due on bonds issued by the Building Authority are reported in the governmental activities statement of net assets.

Discretely Presented Component Units - The Tax Increment Financing Authority's (the "Authority") governing body, which consists of 11 individuals, is appointed by the mayor and approved by the City Council. In addition, the Authority's budget is subject to approval by the City Council. Complete financial statements can be obtained by writing to the City of Southgate.

Note I - Summary of Significant Accounting Policies (Continued)

The Downtown Development Authority (the “DDA”) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA’s governing body, which consists of nine individuals, is appointed by the mayor and approved by the City Council. In addition, the DDA’s budget is subject to approval by the City.

The Southeastern Michigan Information Alliance (the “SMIA”) was created to enhance public safety through the sharing of technology and information resources to support the public safety services of the member communities. The SMIA’s governing body consists of one representative appointed by each governmental unit who is a member of SMIA.

Jointly-governed Organization - Jointly-governed organizations are discussed in Note 15.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Note I - Summary of Significant Accounting Policies (Continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The City reports the following major governmental funds:

General Fund - The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Note 1 - Summary of Significant Accounting Policies (Continued)

Community Development Block Grant Fund - The Community Development Block Grant Fund accounts for community development grants and rehabilitation lien activity.

Building Authority Fund - The Building Authority Fund consists of operations related to the issuance and repayment of debt and the construction of facilities.

Street Paving Fund - The Street Paving Fund consists of operations related to the maintenance and construction of the City's roads.

The City reports the following major proprietary funds:

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Golf Course Fund - The Golf Course Fund accounts for the activities of the clubhouse operations and golf course operations.

Additionally, the City reports the following fund types:

Internal Service Fund - The Internal Service Fund accounts for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, mainly on a cost-reimbursement basis.

Pension and Other Employee Benefit Trust Funds - The Pension and Other Employee Benefit Trust Funds account for the activities of the Policemen and Firemen and Municipal Employees' Retirement Systems and their related retiree healthcare funds, which accumulate resources for pension benefit payments to qualified police and fire and municipal retirees.

Agency Funds - Agency Funds account for assets held by the City for individuals, organizations, other governments, or other funds. They are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

Note 1 - Summary of Significant Accounting Policies (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for water and sewer sales and greens fees. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. When an expense has been incurred for purposes for which both restricted and unrestricted resources are available, it is the City's policy to first apply restricted resources.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. To the extent that cash from various funds has been pooled, pooled investment income is generally allocated to each fund using a weighted average of balance for the principal.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes - Property tax receivables are shown as net of allowance for uncollectible amounts. Properties are assessed as of December 31. The related property taxes are billed and become a lien on July 1 of the following year. These taxes are due without penalty during the period from July 1 through August 31 with the final collection date of February 28 before they are added to the county tax rolls.

Note 1 - Summary of Significant Accounting Policies (Continued)

The 2007 taxable valuation of the City totaled \$887 million, a portion of which is captured by the Downtown Development Authority and the Tax Increment Finance Authority, on which ad valorem taxes levied consisted of 10.1366 mills for the City's operating purposes, 1.990 mills for refuse, 3.6620 mills for Act 345 police and fire retirement, .880 mills for the library's operating purposes, 1.9334 mills for road construction, and 1.2462 mills for the EPA judgment levy. The ad valorem taxes levied raised \$9,000,000 for operations, \$1,765,000 for refuse, \$3,250,000 for police and fire retirement, \$780,000 for the library's operations, \$1,700,000 for road construction, and \$1,100,000 for the EPA judgment levy. These amounts are recognized in the respective General, Special Revenue, Water and Sewer, and Debt Service Funds financial statements as taxes receivable - current or as tax revenue.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - The bonds of the Water and Sewer Fund require amounts to be set aside for debt service principal and interest, and a bond reserve. In addition, a portion of the water and sewer user fee has been restricted by ordinance to be used solely for the purpose of making capital improvements in the City's water and sewer system.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

| | |
|--------------------------------------|-------------|
| Infrastructure | 30-50 years |
| Water and sewer distribution systems | 50-75 years |
| Land improvements | 20 years |
| Buildings and building improvements | 50 years |
| Vehicles | 8-10 years |
| Equipment and machinery | 10-20 years |

Compensated Absences (Vacation and Sick Leave) - It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Employees may receive payment of the accumulated sick leave and vacation balance at the rate determined by union contracts, which vary from unit to unit. All vacation and sick leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

The City is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following statements represent a brief synopsis of the major provisions of this Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. The budgets must be balanced. The balanced budget may include a contribution to or appropriation from fund balance.
3. The budgets must be amended when necessary.
4. Debt cannot be entered into unless permitted by law.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures cannot be made unless authorized in the budget.
7. Public hearings must be held before budget adoptions.

The City adopts its budget by budgetary center (activity/department), which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before 90 days prior to the commencement of the fiscal and budget year (July 1), the mayor shall prepare and submit to the Council a complete itemized proposed budget for the next fiscal year.
2. A public hearing on the budget shall be held before its final adoption, at such time and place as the Council shall direct, and notice of such public hearing shall be published at least one month in advance thereof by the clerk.
3. The Council shall, on or before 30 days prior to the commencement of the next fiscal year, adopt a budget for the ensuing fiscal year.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2008

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Budget appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2008 has not been calculated. During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General Fund is presented as required supplemental information.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

- Operating transfers have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).”
- Reimbursements from other funds have been included in revenue, rather than as a reduction of general government nondepartmental expenditures.
- The Community Development Block Grant Fund has not been budgeted on a fiscal year basis consistent with the City, and therefore, the financial activity has been omitted from the required supplemental information.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

| General Fund | Final Budget | Actual | Variance |
|--|--------------|------------|-----------|
| General government: | | | |
| City Council | \$ 108,399 | \$ 109,016 | \$ (617) |
| Assessor | 202,900 | 212,843 | (9,943) |
| Attorney | 156,000 | 157,366 | (1,366) |
| Civil Service Commission | 2,400 | 2,926 | (526) |
| Finance | 412,934 | 420,719 | (7,785) |
| Treasurer | 227,575 | 237,397 | (9,822) |
| Public safety: | | | |
| Fire | 3,366,050 | 3,402,630 | (36,580) |
| Police and Fire Civil Service Commission | 8,500 | 21,304 | (12,804) |
| Public works: | | | |
| Public services | 1,843,127 | 1,973,424 | (130,297) |
| Planning | 20,140 | 21,060 | (920) |
| City garage | 428,819 | 582,486 | (153,667) |
| Cultural and recreation: | | | |
| Recreation | 461,523 | 484,383 | (22,860) |
| Civic center | 820,235 | 844,336 | (24,101) |
| Cultural Commission | 8,960 | 12,299 | (3,339) |
| Transfers to other funds | 606,840 | 660,423 | (53,583) |

City of Southgate, Michigan

Notes to Financial Statements June 30, 2008

Note 2 - Stewardship, Compliance, and Accountability (Continued)

| Street Paving Fund | Final Budget | Actual | Variance |
|----------------------|--------------|--------------|-------------|
| Highways and streets | \$ 2,050,000 | \$ 2,074,243 | \$ (24,243) |

These unfavorable variances in the General Fund were caused by unanticipated expenditures that became necessary during the year.

Transfers to other funds represent resources that became available after utility tax cases were settled during the year for amounts that were less than the original fund designation. These funds were transferred to the Capital Improvement Fund.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The pension trust funds and retiree healthcare funds are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated one bank for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized under the State statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2008

Note 3 - Deposits and Investments (Continued)

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had approximately \$20,211,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

| Investment Type (All in Pension Funds) | Fair Value | Investment Maturities | | |
|---|----------------------|-----------------------|---------------------|---------------------|
| | | Less than 5 Years | 5 to 15 Years | Over 15 Years |
| U.S. Treasury notes | \$ 6,401,792 | \$ 3,141,834 | \$ 1,807,882 | \$ 1,452,076 |
| Mortgage-backed securities | 2,875,427 | 31,550 | 358,738 | 2,485,139 |
| Corporate bonds | 3,403,003 | 1,438,873 | 1,964,130 | - |
| Corporate-backed securities | 1,529,146 | 691,507 | 620,756 | 216,883 |
| Foreign bonds | 393,397 | 59,023 | 334,374 | - |
| Total | <u>\$ 14,602,765</u> | <u>\$ 5,362,787</u> | <u>\$ 5,085,880</u> | <u>\$ 4,154,098</u> |

City of Southgate, Michigan

Notes to Financial Statements June 30, 2008

Note 3 - Deposits and Investments (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

| Investment Type (all in Pension Funds) | Fair Value | Rating | Rating Organization |
|--|--------------|-----------|---------------------|
| Mortgage-backed securities | \$ 2,875,427 | Not rated | |
| Corporate bonds | 99,113 | Not rated | |
| Corporate bonds | 1,723,584 | AAA | Moody's |
| Corporate bonds | 426,095 | AA3 | Moody's |
| Corporate bonds | 415,003 | AA2 | Moody's |
| Corporate bonds | 83,211 | AA1 | Moody's |
| Corporate bonds | 382,557 | A3 | Moody's |
| Corporate bonds | 347,078 | A2 | Moody's |
| Corporate bonds | 630,436 | A1 | Moody's |
| Corporate bonds | 185,969 | BAA3 | Moody's |
| Corporate bonds | 540,784 | BAA2 | Moody's |
| Corporate bonds | 491,716 | BAA1 | Moody's |
| Money market funds | 5,868,713 | AAA | Moody's |
| Pooled investments | 8,494,232 | Not rated | |

Declines in Investment Values - Subsequent to year end, the fair value of the City's investment portfolio (reflected in the pension systems and retiree healthcare funds) declined by approximately \$8,042,000, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

Risks and Uncertainties - The City invests in various securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2008

Note 4 - Receivables and Deferred Revenue

Receivables as of year end are as follows:

| | Governmental Activities | | | | Proprietary Funds | | |
|--------------------|-------------------------|-----------------------------------|--------------------|--------------------------|---------------------|-----------------|---------------------|
| | General Fund | Community Development Block Grant | Street Paving Fund | Nonmajor and Other Funds | Water and Sewer | Golf Course | Total |
| Receivables: | | | | | | | |
| Taxes | \$ 709,146 | \$ - | \$ 72,363 | \$ 32,784 | \$ - | \$ - | \$ 814,293 |
| Liens | - | 946,007 | - | - | - | - | 946,007 |
| Customer | - | - | - | - | 2,160,964 | - | 2,160,964 |
| Interest and other | 80,525 | - | - | 1,171,523 | - | 2,580 | 1,254,628 |
| Net receivables | <u>\$ 789,671</u> | <u>\$ 946,007</u> | <u>\$ 72,363</u> | <u>\$ 1,204,307</u> | <u>\$ 2,160,964</u> | <u>\$ 2,580</u> | <u>\$ 5,175,892</u> |

The City has not recorded an allowance for potential uncollectible amounts related to the receivables discussed above because management deems all receivables to be collectible.

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. All funds and governmental and business-type activities also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

| | Unavailable | Unearned |
|---|-------------|---------------------|
| Community Development Block Grant - | | |
| Liens | \$ - | \$ 966,845 |
| Grants received prior to meeting all eligibility requirements | - | 142,739 |
| Total | <u>\$ -</u> | <u>\$ 1,109,584</u> |

City of Southgate, Michigan

Notes to Financial Statements June 30, 2008

Note 5 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

| | Balance July 1, 2007 | Additions | Deletions | Adjustments | Balance June 30, 2008 |
|---------------------------------------|-------------------------|-------------|-------------|-------------|--------------------------|
| Governmental Activities | | | | | |
| Capital assets not being depreciated: | | | | | |
| Land | \$ 3,383,862 | \$ 7,547 | \$ - | \$ - | \$ 3,391,409 |
| Construction in progress | 172,558 | 1,318,312 | (66,077) | - | 1,424,793 |
| Subtotal | 3,556,420 | 1,325,859 | (66,077) | - | 4,816,202 |
| Capital assets being depreciated: | | | | | |
| Land improvements | 2,302,472 | - | - | - | 2,302,472 |
| Buildings and improvements | 33,230,082 | 26,401 | (7,653) | - | 33,248,830 |
| Vehicles | 2,956,853 | 179,714 | (205,092) | - | 2,931,475 |
| Equipment and machinery | 7,905,212 | 83,500 | (7,400) | - | 7,981,312 |
| Infrastructure | 60,880,554 | 1,232,494 | - | - | 62,113,048 |
| Subtotal | 107,275,173 | 1,522,109 | (220,145) | - | 108,577,137 |
| Accumulated depreciation: | | | | | |
| Land improvements | 767,933 | 99,093 | - | - | 867,026 |
| Buildings and improvements | 7,263,054 | 677,540 | - | - | 7,940,594 |
| Vehicles | 1,853,571 | 144,992 | (205,092) | - | 1,793,471 |
| Equipment and machinery | 6,159,760 | 293,348 | (7,400) | - | 6,445,708 |
| Infrastructure | 32,835,979 | 1,419,065 | - | - | 34,255,044 |
| Subtotal | 48,880,297 | 2,634,038 | (212,492) | - | 51,301,843 |
| Net capital assets being depreciated | 58,394,876 | (1,111,929) | (7,653) | - | 57,275,294 |
| Net capital assets | \$ 61,951,296 | \$ 213,930 | \$ (73,730) | \$ - | \$ 62,091,496 |

City of Southgate, Michigan

Notes to Financial Statements June 30, 2008

Note 5 - Capital Assets (Continued)

| | Balance July 1, 2007 | Additions | Deletions | Balance June 30, 2008 |
|---------------------------------------|-------------------------|--------------|--------------|--------------------------|
| Business-type Activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 169,444 | \$ - | \$ - | \$ 169,444 |
| Construction in progress | 18,603 | 482,016 | - | 500,619 |
| Subtotal | 188,047 | 482,016 | - | 670,063 |
| Capital assets being depreciated: | | | | |
| Land improvements | 631,708 | - | - | 631,708 |
| Water and sewer distribution systems | 42,692,963 | 2,291,936 | - | 44,984,899 |
| Buildings and building improvements | 909,395 | 30,396 | - | 939,791 |
| Vehicles | 1,430,013 | 427,246 | (262,270) | 1,594,989 |
| Equipment and machinery | 738,095 | 56,305 | (450) | 793,950 |
| Subtotal | 46,402,174 | 2,805,883 | (262,720) | 48,945,337 |
| Accumulated depreciation: | | | | |
| Land improvements | 232,424 | 14,375 | - | 246,799 |
| Water and sewer distribution systems | 13,143,910 | 792,547 | - | 13,936,457 |
| Buildings and building improvements | 333,807 | 18,945 | - | 352,752 |
| Vehicles | 1,170,290 | 92,117 | (152,990) | 1,109,417 |
| Equipment and machinery | 668,216 | 29,289 | (450) | 697,055 |
| Subtotal | 15,548,647 | 947,273 | (153,440) | 16,342,480 |
| Net capital assets being depreciated | 30,853,527 | 1,858,610 | (109,280) | 32,602,857 |
| Net capital assets | \$ 31,041,574 | \$ 2,340,626 | \$ (109,280) | \$ 33,272,920 |

City of Southgate, Michigan

Notes to Financial Statements June 30, 2008

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

| | |
|------------------------|--------------|
| General government | \$ 1,319,362 |
| Public safety | 295,879 |
| Public works | 341,675 |
| Recreation and culture | 613,191 |
| District Court | 63,931 |

| | |
|-------------------------------|---------------------|
| Total governmental activities | <u>\$ 2,634,038</u> |
|-------------------------------|---------------------|

Business-type activities:

| | |
|-----------------|------------|
| Water and sewer | \$ 910,886 |
| Golf | 36,387 |

| | |
|--------------------------------|-------------------|
| Total business-type activities | <u>\$ 947,273</u> |
|--------------------------------|-------------------|

Construction Commitments - The City of Southgate has active construction projects as of June 30, 2008. At year end, the City's commitments with contractors are as follows:

| | <u>Spent to Date</u> | <u>Remaining Commitment</u> |
|---------------------|----------------------|---------------------------------|
| Street construction | \$ 906,193 | \$ 176,103 |
| Water mains | 329,741 | 118,228 |
| Total | <u>\$ 1,235,934</u> | <u>\$ 294,331</u> |

City of Southgate, Michigan

Notes to Financial Statements June 30, 2008

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

| Receivable Fund | Payable Fund | Amount |
|---|--|-------------------|
| Due to/from Other Funds | | |
| General Fund | Proprietary Fund - Golf Course Fund | \$ 98,751 |
| | Proprietary Fund - Water and Sewer Fund | 21,091 |
| | Community Development Block Grant Fund | 85,493 |
| | Other governmental funds | <u>112,395</u> |
| | Total General Fund | 317,730 |
| Community Development Block Grant Fund | General Fund | 78,327 |
| | | |
| Other governmental funds | Proprietary Fund - Golf Course Fund | 224,089 |
| | General Fund | 36,048 |
| | Other governmental funds | <u>23,419</u> |
| | Total other governmental funds | <u>283,556</u> |
| | Total governmental funds | <u>\$ 679,613</u> |
| Due to/from Component Units | | |
| General Fund | Southeastern Michigan Information Alliance | \$ 33,759 |
| Street Paving Fund | Tax Increment Finance Authority | 250,000 |
| Other governmental funds | Southeastern Michigan Information Alliance | <u>315,878</u> |
| | Total component units owing to primary government | <u>\$ 599,637</u> |

City of Southgate, Michigan

Notes to Financial Statements June 30, 2008

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

| | Transfers Out | | | |
|--------------------------|--------------------|--------------------------------|----------------------|---------------------|
| | General Fund | Other Governmental Funds | Proprietary Funds | Total |
| Transfers in: | | | | |
| Building Authority Fund | \$ 306,840 (1) | \$ 107,753 (4) | \$ - | \$ 414,593 |
| Other governmental funds | <u>253,583 (2)</u> | <u>361,655 (3)</u> | <u>40,000 (5)</u> | <u>655,238</u> |
| Total | <u>\$ 560,423</u> | <u>\$ 469,408</u> | <u>\$ 40,000</u> | <u>\$ 1,069,831</u> |

(1) Transfers for capital expenditures

(2) Transfers of \$53,583 were for capital expenditures and \$200,000 were for operations

(3) Transfers of \$74,638 were for debt service and \$287,017 were for operations

(4) Transfer for debt service

(5) Transfer for operations

Note 7 - Long-term Debt

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Installment purchase agreements and capital leases are also general obligations of the government.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

| | Original Amount | Interest Rate Range | Maturity Payment Range | Principal Maturity Range | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--------------------------------------|--------------------|------------------------|------------------------------|--------------------------------|-------------------|--------------|------------|----------------|------------------------|
| Governmental Activities | | | | | | | | | |
| General obligation bonds: | | | | | | | | | |
| Library Building Authority | \$ 1,515,000 | 2.0%-4.4% | 2023 | \$65,000- | \$ 1,265,000 | \$ - | \$ 60,000 | \$ 1,205,000 | \$ 65,000 |
| Refunding Bonds | | | | \$105,000 | | | | | |
| 2000 Ice Arena Building Authority - | 3,750,000 | 5.0% | 2010 | \$160,000- | 480,000 | - | 150,000 | 330,000 | 160,000 |
| Partially refunded | | | | \$175,000 | | | | | |
| 2005 Ice Arena Building Authority | 2,815,000 | 3.0%-4.0% | 2021 | \$25,000- | 2,790,000 | - | 25,000 | 2,765,000 | 25,000 |
| Refunding Bonds | | | | \$295,000 | | | | | |
| Less deferred amount on refunding | | | | | (182,000) | - | (13,000) | (169,000) | (13,000) |
| 2002 Recreation Facility Building | 9,995,000 | 4.25%-4.5% | 2015 | \$295,000 - | 2,440,000 | - | 280,000 | 2,160,000 | 295,000 |
| Authority - Partially refunded | | | | \$380,000 | | | | | |
| 2005 Recreation Facility Building | 6,665,000 | 3.25%-4.5% | 2026 | \$20,000- | 6,605,000 | - | 20,000 | 6,585,000 | 20,000 |
| Authority Refunding Bonds | | | | \$685,000 | | | | | |
| Less deferred amount on refunding | | | | | (299,250) | - | (15,750) | (283,500) | (15,750) |
| 2000 Michigan Transportation Fund | | | | \$50,000- | | | | | |
| installment purchase agreements | 695,000 | 6.0% | 2014 | \$75,000 | 475,000 | - | 50,000 | 425,000 | 50,000 |
| 2003 police computer system | | | | \$70,819- | | | | | |
| installment purchase agreement | 700,000 | 3.19% | 2013 | \$79,641 | 445,237 | - | 68,709 | 376,528 | 70,819 |
| Parking lot improvements installment | | | | | | | | | |
| purchase agreement | 649,500 | 5.17% | 2018 | \$43,300 | 433,000 | - | 43,300 | 389,700 | 43,300 |
| City of Southgate aerial ladder fire | | | | | | | | | |
| truck installment purchase | | | | \$72,557- | | | | | |
| agreement | 614,899 | 4.93% | 2010 | \$75,977 | 217,475 | - | 69,247 | 148,228 | 72,557 |
| 28th District Court expansion | | | | \$57,032- | | | | | |
| installment purchase agreement | 950,000 | 4.35% | 2018 | \$80,607 | 748,493 | - | 55,317 | 693,176 | 57,032 |
| 2006 City Hall heating/cooling | | | | \$15,710 | | | | | |
| capital lease | 313,000 | 4.98% | 2021 | \$29,664 | 301,049 | - | 15,010 | 286,039 | 15,710 |
| Total governmental | | | | | \$ 15,719,004 | \$ - | \$ 807,833 | \$ 14,911,171 | \$ 845,668 |
| activities | | | | | | | | | |
| Self-insurance claims | N/A | N/A | N/A | N/A | \$ 885,000 | \$ - | \$ - | \$ 885,000 | \$ 442,500 |
| Compensated absence | N/A | N/A | N/A | N/A | 3,071,059 | 152,453 | - | 3,223,512 | 1,164,307 |
| Total compensated | | | | | \$ 3,956,059 | \$ 152,453 | \$ - | \$ 4,108,512 | \$ 1,606,807 |
| absence and other | | | | | | | | | |
| Business-type Activities | | | | | | | | | |
| General obligation bonds: | | | | | | | | | |
| Sewage Disposal System Bonds | | | | \$882,456- | | | | | |
| (17 issues) | 17,922,267 | 2.0%-5.45% | 2022 | \$1,031,270 | \$ 11,278,013 | \$ 1,453,160 | \$ 884,033 | \$ 11,847,140 | \$ 926,227 |
| Tank Rehabilitation Bonds | 423,640 | 8.9% | 2027 | \$18,245- | 423,640 | - | 17,800 | 405,840 | 18,245 |
| | | | | \$31,751 | | | | | |
| Total business-type | | | | | \$ 11,701,653 | \$ 1,453,160 | \$ 901,833 | \$ 12,252,980 | \$ 944,472 |
| activities | | | | | | | | | |

The Building Authority bonds represent the financing to construct the Fun and Fitness Center, ice arena, and library expansion. The assets of the Tax Increment Financing Authority district have been pledged for repayment of the Center debt.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above obligations are as follows (other than tax tribunal, self-insurance claims, and compensated absences):

| | Governmental Activities | | | Business-type Activities | | |
|-----------|-------------------------|---------------------|----------------------|--------------------------|---------------------|----------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2009 | \$ 845,668 | \$ 647,955 | \$ 1,493,623 | \$ 944,472 | \$ 265,607 | \$ 1,210,079 |
| 2010 | 880,133 | 609,271 | 1,489,404 | 976,577 | 235,760 | 1,212,337 |
| 2011 | 835,259 | 569,352 | 1,404,611 | 996,244 | 219,357 | 1,215,601 |
| 2012 | 876,286 | 534,328 | 1,410,614 | 1,035,833 | 189,093 | 1,224,926 |
| 2013 | 926,556 | 496,660 | 1,423,216 | 1,063,131 | 164,475 | 1,227,606 |
| 2014-2018 | 4,529,709 | 1,887,697 | 6,417,406 | 5,105,973 | 471,365 | 5,577,338 |
| 2019-2023 | 4,079,810 | 943,635 | 5,023,445 | 1,526,209 | 183,034 | 1,709,243 |
| 2024-2027 | 1,937,750 | 171,771 | 2,109,521 | 604,541 | 3,854 | 608,395 |
| Total | <u>\$ 14,911,171</u> | <u>\$ 5,860,669</u> | <u>\$ 20,771,840</u> | <u>\$ 12,252,980</u> | <u>\$ 1,732,545</u> | <u>\$ 13,985,525</u> |

Total interest incurred for the City for the year was approximately \$1,198,600.

Note 8 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity since January 1, 2000 is as follows:

| | |
|--------------------------------------|---------------------|
| Cumulative surplus at July 1, 2007 | \$ (77,051) |
| Building permit revenue | 310,903 |
| Less direct costs and indirect costs | <u>(512,481)</u> |
| Cumulative deficit at June 30, 2008 | <u>\$ (278,629)</u> |

City of Southgate, Michigan

Notes to Financial Statements June 30, 2008

Note 9 - Restricted Assets

Enterprise Funds

A portion of the water and sewer user fee has been restricted by ordinance to be used solely for the purpose of making capital improvements in the City's water and sewer system. In addition, restricted assets result from the establishment of debt reserves related to Wayne County Sewage Disposal System bonds. The restricted assets at June 30, 2008 consist of the following:

| | |
|---|---------------------|
| User fee - Cash and certificates of deposit | \$ 2,006,814 |
| Wayne County Sewage Disposal System bonds - Assets held at the County for future debt payments | <u>2,517,071</u> |
| Total restricted assets | <u>\$ 4,523,885</u> |

Net assets in the amount of \$4,523,885 have been restricted. This amount represents restricted assets arising from the water and sewer public improvement, program user charge, as well as unspent property tax collections remitted to the County for future debt service payments on the Wayne County bonds noted above.

Note 10 - Reserved and Designated Fund Balances

The City has reserved fund balances in the following funds:

General Fund:

| | |
|---|-------------------|
| Unspent property tax proceeds - Sanitation | \$ 533,731 |
| Unspent property tax proceeds - Police and fire pension | <u>6,552</u> |
| Total General Fund | <u>\$ 540,283</u> |

City of Southgate, Michigan

Notes to Financial Statements June 30, 2008

Note 10 - Reserved and Designated Fund Balances (Continued)

The City has designated fund balance in the following funds:

General Fund:

| | |
|---------------------------------|-------------------|
| Workers' compensation | \$ 200,000 |
| County property tax chargebacks | 300,000 |
| Property acquisition | <u>29,000</u> |
| Total General Fund | <u>\$ 529,000</u> |

| | |
|--|---------------------|
| Street Paving Fund - Various street projects | <u>\$ 2,000,000</u> |
|--|---------------------|

Other nonmajor governmental funds - Capital Projects Funds:

| | |
|----------------------|----------------|
| Police cars | \$ 640,000 |
| Property acquisition | 250,000 |
| Reeck house | 40,000 |
| Equipment - Pumper | <u>350,000</u> |

| | |
|---|---------------------|
| Total other nonmajor governmental funds - Capital Projects Funds | <u>\$ 1,280,000</u> |
|---|---------------------|

Other nonmajor governmental funds - Special Project Funds:

| | |
|---|----------------|
| Local Streets - Various street projects | \$ 120,000 |
| Local Streets - Capital equipment | 580,000 |
| Major Streets - Various street projects | <u>630,000</u> |

| | |
|--|---------------------|
| Total other nonmajor governmental funds - Special Project Funds | <u>\$ 1,330,000</u> |
|--|---------------------|

Note 11 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefit claims. The City is primarily self-insured for general claims and employee injuries, but has purchased stop-loss commercial insurance to limit losses. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2008

Note 11 - Risk Management (Continued)

The City estimates the liability for general, liability, and workers' compensation claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

| | 2008 | 2007 |
|--|-------------------|-------------------|
| Unpaid claims - Beginning of year | \$ 935,000 | \$ 803,000 |
| Incurred claims - Including claims incurred but not reported | 384,115 | 592,371 |
| Claim payments | <u>(384,115)</u> | <u>(460,371)</u> |
| Unpaid claims - End of year | <u>\$ 935,000</u> | <u>\$ 935,000</u> |

Recorded in the accrued and other liabilities of the Workers' Compensation Fund is a liability for \$50,000 related to workers' compensation claims. The remaining amount of unpaid claims liability is recorded as long-term debt.

Note 12 - Retirement Systems

Plan Description - The City contributes to the Municipal Employees' Retirement System, covering general City employees, and the Policemen and Firemen Retirement System, covering certain police and fire department personnel, which are the administrators for the single-employer defined benefit pension plans. These systems provide retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2007, the date of the most recent actuarial valuations, membership consisted of the following:

| | Policemen and Firemen Retirement System | Municipal Employees' Retirement System |
|---|---|---|
| Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them | 76 | 71 |
| Current active employees | 63 | 82 |

The plans do not issue separate financial reports.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2008

Note 12 - Retirement Systems (Continued)

Funding Policy - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the systems for these employees was established by City ordinances, State statute (P.A. 345), and negotiations with the City's collective bargaining units. The Municipal Employees' Retirement System requires a contribution from the employees of 4.5 percent of annual salary for members hired prior to July 1, 1991 and 3 percent of annual salary for members hired on or after July 1, 1991 up to the Social Security wage base plus 5 percent of annual salary in excess of the Social Security wage base. The Policemen and Firemen Retirement System requires contributions from the employees of 5 percent for policemen and firemen and 7.5 percent for command officers hired before January 1, 1981. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Annual Pension Cost - For the year ended June 30, 2008, the City's systems had the following activity:

| | Actuarial | Interest on Net Pension Asset | Adjustment to Annual Required Contribution | Annual Pension Cost | Actual Contribution |
|--|--------------|-------------------------------------|---|---------------------------|------------------------|
| Policemen and Firemen Retirement System | \$ 1,811,563 | \$ (31,494) | \$ 42,164 | \$ 1,822,233 | \$ 1,773,329 |
| Municipal Employees' Retirement System | 767,755 | (11,633) | 15,575 | 771,697 | 767,755 |

City of Southgate, Michigan

Notes to Financial Statements June 30, 2008

Note 12 - Retirement Systems (Continued)

The three-year trend information for the plans is as follows:

Policemen and Firemen Retirement System

| | Fiscal Year Ended June 30 | | |
|--------------------------------|---------------------------|--------------|--------------|
| | 2008 | 2007 | 2006 |
| Annual pension cost (APC) | \$ 1,822,233 | \$ 1,904,449 | \$ 1,590,802 |
| Percentage of APC contributed | 97.32% | 93.65% | 98.51% |
| Net pension obligation (asset) | \$ (371,013) | \$ (309,003) | \$ (412,565) |

Municipal Employees' Retirement System

| | Fiscal Year Ended June 30 | | |
|--------------------------------|---------------------------|--------------|--------------|
| | 2008 | 2007 | 2006 |
| Annual pension cost (APC) | \$ 771,696 | \$ 756,931 | \$ 728,346 |
| Percentage of APC contributed | 97.32% | 98.75% | 98.77% |
| Net pension obligation (asset) | \$ (151,166) | \$ (143,919) | \$ (156,470) |

The annual required contribution was determined as part of an actuarial valuation at June 30, 2007 using the entry actual age cost method. Significant actuarial assumptions include the following:

| | Policemen and Firemen Retirement System | Municipal Employees' Retirement System |
|-----------------------------|---|---|
| Investment rate of return* | 7.5% | 7.5% |
| Projected salary increases* | 4.7%-8.3% | 4.5%-14% |
| * Includes inflation at | 4.5% | 4.5% |
| Cost of living adjustments | None | None |

Note 12 - Retirement Systems (Continued)

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 19 years for the Policemen and Firemen Retirement System and 19 years for the Municipal Employees' Retirement System.

Reserves

As of June 30, 2008, the plan's legally required reserves have been fully funded as follows:

| | Municipal Employees | Policemen and Firemen |
|---------------------------------------|------------------------|--------------------------|
| Reserves for employees' contributions | \$ 1,687,911 | \$ 3,275,254 |
| Reserves for retired benefit payments | 17,708,721 | 36,448,279 |

Note 13 - Postretirement Benefits

The City provides healthcare and life insurance benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 145 retirees are eligible. In addition, 149 active employees may be entitled to benefits upon retirement.

The healthcare benefit activity related to the employees covered under the Policemen and Firemen Retirement System is recorded in the Act 345 Health Insurance Fund. The City has also established a Municipal Employees' Retiree Health Care Fund to prefund the liability for postemployment benefits related to employees covered under the Municipal Employees' Retirement System. These are single employer defined benefit plans administered by the City. The benefits are provided under collective bargaining agreements. The plans do not issue separate stand-alone financial statements. Administrative costs are paid by the plans through employer contributions.

Note 13 - Postretirement Benefits (Continued)

Funding Policy - The collective bargaining agreements do not require a contribution from employees. Retiree healthcare costs are recognized when paid by the City on a “pay-as-you-go” basis. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment. For the fiscal year ended June 30, 2008, the City made payments for postemployment health benefit premiums for current retirees of \$1,909,532, a portion of which was paid from governmental funds (\$709,428) and a portion of which was paid from the Act 345 Health Insurance Fund (\$1,200,104). In addition, the City contributed approximately \$200,000 into a prefunded Act 345 Health Insurance Fund and approximately \$120,000 into a prefunded Municipal Employees’ Retiree Health Care Fund, which are reported in this financial statement as a Pension and Other Employee Benefit Trust Fund type.

Employer contributions of \$1,408,979 made to the Act 345 Health Insurance Fund during the year ended June 30, 2008 were based on taxes collected through a special millage and approximated an actuarially determined required contribution.

The funding progress of the plans as of the most recent valuation date is as follows:

| Valuation as of June 30, 2006: | Municipal | Police/Fire |
|----------------------------------|--------------|--------------|
| Actuarial value of assets | \$ 1,448,632 | \$ 1,233,577 |
| Actuarial accrued liability | 20,224,513 | 28,166,082 |
| Unfunded AAL | 18,775,881 | 26,932,505 |
| Funded ratio | 7.16% | 4.38% |
| Annual covered payroll | 4,058,517 | 5,767,859 |
| Ratio of UAAL to covered payroll | 462.63% | 466.94% |

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress above presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Note 13 - Postretirement Benefits (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2006, actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included a 7.5 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after 10 years. Both rates included a 4.5 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll for public safety members on an open basis and a dollar amount for all other covered members. The remaining amortization period at June 30, 2006 was 30 years.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2008

Note 14 - Pension and Other Employee Benefit Trust Fund

The following are condensed financial statements for the Pension and Other Employee Benefits Trust Funds at June 30, 2008:

| | Pension and Other Employee Benefit Trust Funds | | | | |
|---------------------------------------|---|--|-----------------------------|---|----------------|
| | Municipal Employees' Retirement System | Policemen and Firemen Retirement System | Act 345 Health Insurance | Municipal Employees' Retiree Health Care | Total |
| Assets | | | | | |
| Cash and investments | \$ 21,681,217 | \$ 48,565,406 | \$ 1,432,567 | \$ 1,825,915 | \$ 73,505,105 |
| Employer receivables | 111,941 | - | 224,394 | - | 336,335 |
| Total assets | 21,793,158 | 48,565,406 | 1,656,961 | 1,825,915 | 73,841,440 |
| Liabilities - Accounts payable | - | 1,240,543 | 37,882 | - | 1,278,425 |
| Total net assets | \$ 21,793,158 | \$ 47,324,863 | \$ 1,619,079 | \$ 1,825,915 | \$ 72,563,015 |
| Net investment income (loss) | \$ (1,335,585) | \$ (3,336,158) | \$ 23,850 | \$ 60,561 | \$ (4,587,332) |
| Total contributions | 899,108 | 2,080,331 | 1,408,979 | 120,250 | 4,508,668 |
| Benefit payments and refunds | (1,743,806) | (3,536,762) | (1,200,104) | - | (6,480,672) |
| Change in Net Assets | \$ (2,180,283) | \$ (4,792,589) | \$ 232,725 | \$ 180,811 | \$ (6,559,336) |

Note 15 - Joint Ventures

Southgate-Wyandotte Drainage District

The City is a member of the Southgate-Wyandotte Drainage District, a joint venture with the City of Wyandotte that provides drainage services to the residents of Southgate and Wyandotte. The venture is administered by the Wayne County Drainage Board. The City paid \$1,194,834 to Wayne County during the year for operation and maintenance.

The City of Southgate has approximately a 42 percent interest in the venture. The operations of the fund will be financed through assessments to the participating cities, Wayne County, and the State of Michigan. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Note 15 - Joint Ventures (Continued)

Downriver Sewage Disposal System

The City, along with 12 other communities, jointly participates in the Downriver Sewage Disposal System. The City's share of capital assets, restricted assets (for debt service), and related debt is recorded in the Water and Sewer Fund as "investment in joint ventures", and was \$931,021 at June 30, 2008. During the year, the City paid \$1,431,297 for operations of the system and \$885,726 for debt service.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Financial statements for both joint ventures can be obtained from the County of Wayne's administrative offices at 415 Clifford, Detroit, MI 48226.

Required Supplemental Information

City of Southgate, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|---|--------------------|-------------------|--------------|---------------------------------|
| Fund Balance - Beginning of year | \$ 2,092,571 | \$ 2,092,571 | \$ 2,092,571 | \$ - |
| Resources (Inflows) | | | | |
| Property taxes | 13,782,096 | 13,782,096 | 13,767,272 | (14,824) |
| Licenses and permits | 533,000 | 533,000 | 378,873 | (154,127) |
| Federal sources | - | - | 9,731 | 9,731 |
| State sources | 3,342,600 | 3,342,600 | 3,342,991 | 391 |
| Charges for services | 978,321 | 978,321 | 909,847 | (68,474) |
| Fines and forfeitures | 1,325,000 | 1,325,000 | 1,411,815 | 86,815 |
| Interest and rentals | 752,000 | 752,000 | 1,044,059 | 292,059 |
| Other | 49,275 | 49,275 | 51,040 | 1,765 |
| Reimbursements from other funds | 1,310,520 | 1,310,520 | 1,497,846 | 187,326 |
| Total resources (inflows) | 22,072,812 | 22,072,812 | 22,413,474 | 340,662 |
| Charges to Appropriations (Outflows) | | | | |
| General government: | | | | |
| City Council | 108,399 | 108,399 | 109,016 | (617) |
| Executive | 164,730 | 164,730 | 160,676 | 4,054 |
| Elections | 66,134 | 66,134 | 26,107 | 40,027 |
| Assessor | 202,900 | 202,900 | 212,843 | (9,943) |
| Attorney | 156,000 | 156,000 | 157,366 | (1,366) |
| Clerk | 176,348 | 176,348 | 174,118 | 2,230 |
| Civil Service Commission | 2,400 | 2,400 | 2,926 | (526) |
| Finance | 412,934 | 412,934 | 420,719 | (7,785) |
| Treasurer | 227,575 | 227,575 | 237,397 | (9,822) |
| Nondepartmental | 3,319,277 | 3,319,277 | 3,306,849 | 12,428 |
| Public safety: | | | | |
| Police | 6,229,219 | 6,229,219 | 6,221,655 | 7,564 |
| Fire | 3,366,050 | 3,366,050 | 3,402,630 | (36,580) |
| Emergency preparedness | 6,210 | 6,210 | 517 | 5,693 |
| Police and Fire Civil Service Commission | 8,500 | 8,500 | 21,304 | (12,804) |
| Public works: | | | | |
| Public services | 1,843,127 | 1,843,127 | 1,973,424 | (130,297) |
| Sanitation | 1,716,073 | 1,716,073 | 1,661,432 | 54,641 |
| Building | 465,750 | 465,750 | 458,589 | 7,161 |
| Planning | 20,140 | 20,140 | 21,060 | (920) |
| City garage | 428,819 | 428,819 | 582,486 | (153,667) |

City of Southgate, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2008

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|---|---------------------|---------------------|---------------------|---------------------------------|
| Charges to Appropriations (Outflows) | | | | |
| (Continued) | | | | |
| Cultural and recreation: | | | | |
| Recreation | \$ 461,523 | \$ 461,523 | \$ 484,383 | \$ (22,860) |
| Civic Center | 820,235 | 820,235 | 844,336 | (24,101) |
| Senior Citizen Center | 127,780 | 127,780 | 127,345 | 435 |
| Cultural Commission | 8,960 | 8,960 | 12,299 | (3,339) |
| Heritage Days | 24,500 | 24,500 | 16,079 | 8,421 |
| Cable Commission | 1,520 | 1,520 | 1,240 | 280 |
| 28th District Court | 1,100,869 | 1,100,869 | 1,039,730 | 61,139 |
| Transfers to other funds | 606,840 | 606,840 | 660,423 | (53,583) |
| Total charges to appropriations (outflows) | 22,072,812 | 22,072,812 | 22,336,949 | (264,137) |
| Fund Balance - End of year | \$ 2,092,571 | \$ 2,092,571 | \$ 2,169,096 | \$ 76,525 |

City of Southgate, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Street Paving Fund Year Ended June 30, 2008

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|---|---------------------|---------------------|---------------------|------------------------------------|
| Fund Balance - Beginning of year | \$ 3,006,896 | \$ 3,006,896 | \$ 3,006,896 | \$ - |
| Resources (Inflows) | | | | |
| Property taxes | 1,611,525 | 1,611,525 | 1,602,768 | (8,757) |
| Interest and rentals | <u>20,000</u> | <u>20,000</u> | <u>78,232</u> | <u>58,232</u> |
| Total resources (inflows) | 1,631,525 | 1,631,525 | 1,681,000 | 49,475 |
| Charges to Appropriations (Outflows) - | | | | |
| Highways and streets | <u>2,050,000</u> | <u>2,050,000</u> | <u>2,074,243</u> | <u>(24,243)</u> |
| Fund Balance - End of year | <u>\$ 2,588,421</u> | <u>\$ 2,588,421</u> | <u>\$ 2,613,653</u> | <u>\$ 25,232</u> |

City of Southgate, Michigan

Required Supplemental information Municipal Employees' Retirement System Schedule of Funding Progress (dollar amounts in millions)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (Percent) (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll |
|--------------------------------|--|---|---------------------------------|------------------------------------|---------------------------|--|
| 06/30/02 | 23.0 | \$ 19.4 | \$ (3.6) | 118.6 | \$ 3.9 | - |
| 06/30/03 | 22.5 | 21.8 | (0.7) | 103.2 | 3.6 | - |
| 06/30/04 | 21.8 | 22.8 | 1.0 | 95.6 | 4.1 | 24.4 |
| 06/30/05 | 21.9 | 24.3 | 2.4 | 90.1 | 4.0 | 60.0 |
| 06/30/06 | 22.1 | 25.9 | 3.8 | 85.3 | 3.7 | 102.7 |
| 06/30/07 | 23.1 | 27.7 | 4.6 | 83.4 | 3.7 | 124.3 |

Schedule of Employer Contributions

| Year | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation (Asset) |
|------|---------------------------------|-------------------------------------|--------------------------------------|
| 2003 | \$ 211,625 | 130.58 | \$ (176,587) |
| 2004 | 259,371 | 97.60 | (170,374) |
| 2005 | 509,488 | 98.39 | (162,185) |
| 2006 | 728,346 | 98.77 | (156,470) |
| 2007 | 756,931 | 98.75 | (143,919) |
| 2008 | 771,697 | 97.32 | (151,166) |

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2005, the latest actuarial valuation date, follows:

| | |
|-------------------------------|--------------------------|
| Actuarial cost method | Entry age |
| Amortization method | Level percent of payroll |
| Remaining amortization period | 19 years |
| Asset valuation method | 4-year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return * | 7.5% |
| Projected salary increases * | 4.5%-14.0% |
| *Includes inflation at | 4.5% |
| Cost of living adjustments | Not applicable |

City of Southgate, Michigan

Required Supplemental information Policemen and Firemen Retirement System Schedule of Funding Progress (dollar amounts in millions)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (Percent) (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll |
|--------------------------------|--|---|---------------------------------|------------------------------------|---------------------------|--|
| 06/30/02 | \$ 55.2 | \$ 47.5 | \$ (7.7) | 116.2 | \$ 4.9 | - |
| 06/30/03 | 50.7 | 50.8 | 0.1 | 99.8 | 4.5 | 2.2 |
| 06/30/04 | 47.6 | 52.7 | 5.10 | 90.3 | 5.1 | 100.0 |
| 06/30/05 | 45.8 | 53.9 | 8.10 | 85.0 | 5.2 | 155.8 |
| 06/30/06 | 46.6 | 56.8 | 10.20 | 82.0 | 5.3 | 192.5 |
| 06/30/07 | 49.2 | 59.5 | 10.30 | 82.7 | 5.4 | 190.7 |

Schedule of Employer Contributions

| Year | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation (Asset) |
|------|---------------------------------|-------------------------------------|--------------------------------------|
| 2003 | \$ 146,443 | 66.00 | \$ (487,736) |
| 2004 | 399,029 | 87.97 | (439,736) |
| 2005 | 1,134,093 | 97.89 | (418,736) |
| 2006 | 1,590,802 | 98.51 | (412,565) |
| 2007 | 1,904,449 | 93.65 | (309,003) |
| 2008 | 1,822,233 | 97.32 | (371,013) |

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2005, the latest actuarial valuation date, follows:

| | |
|-------------------------------|--------------------------|
| Actuarial cost method | Entry age |
| Amortization method | Level percent of payroll |
| Remaining amortization period | 19 years - open |
| Asset valuation method | 4-year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return * | 7.5% |
| Projected salary increases * | 4.7%-8.3% |
| *Includes inflation at | 4.5% |
| Cost of living adjustments | Not applicable |

Other Supplemental Information

City of Southgate, Michigan

| | Special Revenue Funds | | | | | | |
|--------------------------------------|-----------------------|---------------------|-----------------------|-------------------|---|-------------------|------------------------------------|
| | Major Streets | Local Streets | Narcotics Enforcement | Severance Reserve | Southgate - Wyandotte Operation and Maintenance | Library | District Court Capital Improvement |
| Assets | | | | | | | |
| Cash and investments | \$ 2,070,416 | \$ 2,303,474 | \$ 152,714 | \$ 790,852 | \$ 1,013,581 | \$ 852,174 | \$ 116,992 |
| Receivables - Net | - | - | - | - | 1,170,710 | 33,597 | - |
| Due from other funds | - | 247,508 | - | - | - | - | - |
| Due from component unit | - | - | - | - | - | - | - |
| Due from other governmental units | 187,484 | 73,087 | - | - | - | 53,553 | 13,965 |
| Prepaid expenses | - | - | - | - | - | - | - |
| Total assets | <u>\$ 2,257,900</u> | <u>\$ 2,624,069</u> | <u>\$ 152,714</u> | <u>\$ 790,852</u> | <u>\$ 2,184,291</u> | <u>\$ 939,324</u> | <u>\$ 130,957</u> |
| Liabilities and Fund Balances | | | | | | | |
| Liabilities | | | | | | | |
| Accounts payable | \$ 15,057 | \$ 2,470 | \$ 29,390 | \$ - | \$ - | \$ 25,862 | \$ - |
| Accrued and other liabilities | - | - | - | - | - | 7,570 | - |
| Due to other funds | 41,593 | 18,790 | - | 24,792 | - | - | 50,639 |
| Deferred revenue | - | - | - | - | - | - | - |
| Total liabilities | 56,650 | 21,260 | 29,390 | 24,792 | - | 33,432 | 50,639 |
| Fund Balances - Unreserved | | | | | | | |
| Designated - Reported in: | | | | | | | |
| Special Revenue Funds | 630,000 | 700,000 | - | - | - | - | - |
| Capital Project Funds | - | - | - | - | - | - | - |
| Undesignated | <u>1,571,250</u> | <u>1,902,809</u> | <u>123,324</u> | <u>766,060</u> | <u>2,184,291</u> | <u>905,892</u> | <u>80,318</u> |
| Total fund balances | <u>2,201,250</u> | <u>2,602,809</u> | <u>123,324</u> | <u>766,060</u> | <u>2,184,291</u> | <u>905,892</u> | <u>80,318</u> |
| Total liabilities and fund balances | <u>\$ 2,257,900</u> | <u>\$ 2,624,069</u> | <u>\$ 152,714</u> | <u>\$ 790,852</u> | <u>\$ 2,184,291</u> | <u>\$ 939,324</u> | <u>\$ 130,957</u> |

**Other Supplemental information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008**

| Debt Service Funds | | | Capital Projects Funds | | |
|--------------------|------------------------------------|-----------------------------------|--------------------------------|--------------------------------------|---|
| SCI 541 Bond | Michigan Transportation Bond | Southgate - Wyandotte Drain | Capital Improvement Fund | Drake Street Construction Fund | Total Nonmajor Governmental Funds |
| \$ 4,867 | \$ 116,492 | \$ 90,174 | \$ 1,408,287 | \$ 122,046 | \$ 9,042,069 |
| - | - | - | - | 10,870 | 1,215,177 |
| - | - | - | 36,048 | - | 283,556 |
| - | - | - | 315,878 | - | 315,878 |
| - | - | - | - | - | 328,089 |
| - | - | - | 2,048 | - | 2,048 |
| <u>\$ 4,867</u> | <u>\$ 116,492</u> | <u>\$ 90,174</u> | <u>\$ 1,762,261</u> | <u>\$ 132,916</u> | <u>\$ 11,186,817</u> |
| | | | | | |
| \$ - | \$ - | \$ - | \$ 583 | \$ - | \$ 73,362 |
| - | - | - | - | - | 7,570 |
| - | - | - | - | - | 135,814 |
| - | - | - | 70,138 | 10,870 | 81,008 |
| - | - | - | 70,721 | 10,870 | 297,754 |
| - | - | - | - | - | 1,330,000 |
| - | - | - | 1,280,000 | - | 1,280,000 |
| 4,867 | 116,492 | 90,174 | 411,540 | 122,046 | 8,279,063 |
| 4,867 | 116,492 | 90,174 | 1,691,540 | 122,046 | 10,889,063 |
| <u>\$ 4,867</u> | <u>\$ 116,492</u> | <u>\$ 90,174</u> | <u>\$ 1,762,261</u> | <u>\$ 132,916</u> | <u>\$ 11,186,817</u> |

City of Southgate, Michigan

| | Special Revenue Funds | | | | | | |
|---|-----------------------|---------------------|--------------------------|----------------------|--|-------------------|--|
| | Major Streets | Local Streets | Narcotics Enforcement | Severance Reserve | Southgate - Wyandotte Operation and Maintenance | Library | District Court Capital Improvement |
| Revenues | | | | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 729,376 | \$ - |
| State sources | 1,144,554 | 446,028 | - | - | - | - | - |
| Charges for service | - | - | - | - | - | - | 154,527 |
| Interest income | 76,167 | 66,785 | 3,550 | 24,424 | 52,146 | 25,496 | 3,224 |
| Special assessments | - | - | - | - | 1,237,950 | - | - |
| Other | - | - | 100,515 | - | - | 20,503 | 55,000 |
| Total revenues | 1,220,721 | 512,813 | 104,065 | 24,424 | 1,290,096 | 775,375 | 212,751 |
| Expenditures | | | | | | | |
| Current: | | | | | | | |
| General government | - | - | - | 118,634 | - | - | - |
| Public services | 646,621 | 629,543 | - | - | 1,195,210 | 690,991 | - |
| Public safety | - | - | 84,568 | - | - | - | - |
| Capital outlay | - | - | - | - | - | - | - |
| Debt service | - | - | - | - | - | - | 153,583 |
| Total expenditures | 646,621 | 629,543 | 84,568 | 118,634 | 1,195,210 | 690,991 | 153,583 |
| Excess of Revenues Over (Under) Expenditures | 574,100 | (116,730) | 19,497 | (94,210) | 94,886 | 84,384 | 59,168 |
| Other Financing Sources (Uses) | | | | | | | |
| Operating transfers in | - | 287,017 | - | 240,000 | - | - | - |
| Operating transfers out | (361,655) | - | - | - | - | (107,753) | - |
| Total other financing sources (uses) | (361,655) | 287,017 | - | 240,000 | - | (107,753) | - |
| Net Change in Fund Balances | 212,445 | 170,287 | 19,497 | 145,790 | 94,886 | (23,369) | 59,168 |
| Fund Balances - Beginning of year | 1,988,805 | 2,432,522 | 103,827 | 620,270 | 2,089,405 | 929,261 | 21,150 |
| Fund Balances - End of year | \$ 2,201,250 | \$ 2,602,809 | \$ 123,324 | \$ 766,060 | \$ 2,184,291 | \$ 905,892 | \$ 80,318 |

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2008

| Debt Service Funds | | | Capital Projects Funds | | |
|--------------------|------------------------------------|-----------------------------------|--------------------------------|--------------------------------------|---|
| SCI 541 Bond | Michigan Transportation Bond | Southgate - Wyandotte Drain | Capital Improvement Fund | Drake Street Construction Fund | Total Nonmajor Governmental Funds |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ 729,376 |
| - | - | - | - | - | 1,590,582 |
| - | - | - | - | 5,325 | 159,852 |
| 142 | 4,265 | 3,176 | 48,154 | 5,211 | 312,740 |
| - | - | - | - | - | 1,237,950 |
| - | - | - | 45,083 | - | 221,101 |
| 142 | 4,265 | 3,176 | 93,237 | 10,536 | 4,251,601 |
| - | - | - | 89,513 | - | 208,147 |
| - | - | - | - | - | 3,162,365 |
| - | - | - | - | - | 84,568 |
| - | - | - | 19,636 | - | 19,636 |
| - | 74,638 | - | - | - | 228,221 |
| - | 74,638 | - | 109,149 | - | 3,702,937 |
| 142 | (70,373) | 3,176 | (15,912) | 10,536 | 548,664 |
| - | 74,638 | - | 53,583 | - | 655,238 |
| - | - | - | - | - | (469,408) |
| - | 74,638 | - | 53,583 | - | 185,830 |
| 142 | 4,265 | 3,176 | 37,671 | 10,536 | 734,494 |
| 4,725 | 112,227 | 86,998 | 1,653,869 | 111,510 | 10,154,569 |
| <u>\$ 4,867</u> | <u>\$ 116,492</u> | <u>\$ 90,174</u> | <u>\$ 1,691,540</u> | <u>\$ 122,046</u> | <u>\$ 10,889,063</u> |

City of Southgate, Michigan

| | Pension and Other Employee Benefit Trust Funds | | | | |
|--|---|--|-----------------------------|---|----------------------|
| | Municipal Employees' Retirement System | Policemen and Firemen Retirement System | Act 345 Health Insurance | Municipal Employees' Retiree Health Care | Total |
| Assets | | | | | |
| Cash and investments | \$ 21,681,217 | \$ 48,565,406 | \$ 1,432,567 | \$ 1,825,915 | \$ 73,505,105 |
| Employer receivables | <u>111,941</u> | <u>-</u> | <u>224,394</u> | <u>-</u> | <u>336,335</u> |
| Total assets | 21,793,158 | 48,565,406 | 1,656,961 | 1,825,915 | 73,841,440 |
| Liabilities | | | | | |
| Accounts payable | - | 1,240,543 | 37,882 | - | 1,278,425 |
| Due to other governmental units | - | - | - | - | - |
| Cash bonds and deposits | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total liabilities | <u>-</u> | <u>1,240,543</u> | <u>37,882</u> | <u>-</u> | <u>1,278,425</u> |
| Net Assets - Held in trust for pension and other employee benefits | <u>\$ 21,793,158</u> | <u>\$ 47,324,863</u> | <u>\$ 1,619,079</u> | <u>\$ 1,825,915</u> | <u>\$ 72,563,015</u> |

**Other Supplemental Information
Combining Statement of Net Assets
Fiduciary Funds
Year Ended June 30, 2008**

| Agency Funds | | | |
|------------------|---------------------------|------------------|-------------------|
| Tax Collection | Senior Citizens' Trust | Escrow | Total |
| \$ 15,943 | \$ 45,248 | \$ 94,675 | \$ 155,866 |
| - | - | - | - |
| \$ 15,943 | \$ 45,248 | \$ 94,675 | \$ 155,866 |
| \$ - | \$ - | \$ 17,848 | \$ 17,848 |
| 15,943 | - | - | 15,943 |
| - | 45,248 | 76,827 | 122,075 |
| \$ 15,943 | \$ 45,248 | \$ 94,675 | \$ 155,866 |

City of Southgate, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds Year Ended June 30, 2008

| | Municipal Employees' Retirement System | Policemen and Firemen Retirement System | Act 345 Health Insurance | Municipal Employees' Retiree Health Care | Total |
|--|---|--|--------------------------------|---|----------------------|
| Additions | | | | | |
| Investment income (loss): | | | | | |
| Interest and dividends | \$ 503,991 | \$ 945,002 | \$ 23,850 | \$ 60,561 | \$ 1,533,404 |
| Net decrease in fair value of investments | (1,634,631) | (3,910,440) | - | - | (5,545,071) |
| Investment expense | (204,945) | (370,720) | - | - | (575,665) |
| Net investment income (loss) | (1,335,585) | (3,336,158) | 23,850 | 60,561 | (4,587,332) |
| Contributions: | | | | | |
| Employer | 767,755 | 1,773,329 | 1,408,979 | 120,250 | 4,070,313 |
| Employee | 131,353 | 307,002 | - | - | 438,355 |
| Total contributions | 899,108 | 2,080,331 | 1,408,979 | 120,250 | 4,508,668 |
| Total additions | (436,477) | (1,255,827) | 1,432,829 | 180,811 | (78,664) |
| Deductions | | | | | |
| Benefit payments | 1,710,738 | 3,534,414 | 1,200,104 | - | 6,445,256 |
| Refunds of contributions | 33,068 | 2,348 | - | - | 35,416 |
| Total deductions | 1,743,806 | 3,536,762 | 1,200,104 | - | 6,480,672 |
| Net (Decrease) Increase in Net Assets Held for Pension Benefits | (2,180,283) | (4,792,589) | 232,725 | 180,811 | (6,559,336) |
| Net Assets Held in Trust for Pension Benefits | | | | | |
| Beginning of year | 23,973,441 | 52,117,452 | 1,386,354 | 1,645,104 | 79,122,351 |
| End of year | <u>\$ 21,793,158</u> | <u>\$ 47,324,863</u> | <u>\$ 1,619,079</u> | <u>\$ 1,825,915</u> | <u>\$ 72,563,015</u> |

City of Southgate, Michigan

Report to the City Council

June 30, 2008



Plante & Moran, PLLC
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plantemoran.com

October 17, 2008

To the Honorable Mayor and
Members of the City Council
City of Southgate, Michigan

We have recently completed our audit of the basic financial statements of the City of Southgate, Michigan (the "City") for the year ended June 30, 2008. In addition to our audit report, we are providing the following letter of required audit communication and informational comments which impact the City:

| | <u>Page</u> |
|--|-------------|
| Results of the Audit | I-3 |
| Informational and Legislative Matters | 4-10 |

We are grateful for the opportunity to be of service to the City of Southgate. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Very truly yours,

Plante & Moran, PLLC

Beth A. Bialy

William E. Brickey

Results of the Audit

To the Honorable Mayor and
Members of the City Council
City of Southgate, Michigan

We have audited the financial statements of the City of Southgate, Michigan (the "City") for the year ended June 30, 2008 and have issued our report thereon dated October 17, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 17, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City of Southgate, Michigan. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 15, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Southgate, Michigan are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008.

To the Honorable Mayor and
Members of the City Council
City of Southgate, Michigan

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were liability claims incurred but not reported and accounts receivable related to unbilled water and sewer fees.

Management's estimates of claims incurred but not reported and unbilled water and sewer fees are based on historical information. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were Note 3 - Deposits and Investments, Note 5 - Capital Assets, Note 7 - Long-term Debt, and Note 12 - Retirement Systems.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not identify any misstatements.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated October 17, 2008.

To the Honorable Mayor and
Members of the City Council
City of Southgate, Michigan

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the City's auditors.

This information is intended solely for the use of the members of the City Council and management of the City of Southgate, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 17, 2008

Informational and Legislative Items

Overall Financial Condition

Over the past several years, the City has been working to maintain a healthy fund balance. Undesignated fund balance for the General Fund is approximately \$1,100,000 for the year ended June 30, 2008, which is about 5 percent of one year's worth of expenditures. As we have discussed with you in the past, fund balance is necessary due to uncertainty related to major revenue sources and increasing costs. Many of these items are outlined below. The City is positioned in the very short term to weather this downturn because of the fund balance that exists, but we encourage management to make every effort to protect and preserve the level of fund balance. This will ensure the City's health for years to come.

Retirement Benefits

After review of the December 31, 2007 actuary reports for police and fire and municipal employees, we noted that the number of retirees has increased significantly over the past 20 years. In the 1980s, there was at least a 3:1 ratio of active employees to retirees. There are now more retirees than active employees. This demonstrates the importance of prefunding and the City should consider prefunding retiree healthcare benefits to the extent possible.

Healthcare Funding

The Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local governmental units in recognizing the cost of retiree health care and other nonpension postemployment benefits. The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of an employee, rather than at the time the healthcare premiums are paid.

The new pronouncement is effective for the year ending June 30, 2009. The City has approximately \$3,400,000 set aside for its obligation for retiree health care in the Retirement Health Care Trust Funds, which is a good start to funding this liability. These new standards allow the City to fund the actuarial accrued liability for benefits provided and earned to date over 30 years. This new pronouncement could have a significant effect on the City if it intends to actuarially fund this obligation. The City has had a valuation done for this liability and as of June 30, 2006, the date of the most recent actuary report, the unfunded actuarial accrued liability was approximately \$45,700,000 and has been disclosed in the June 30, 2008 financial statements.

Property Tax Developments

The front page story several months ago is now old news. For many communities in Michigan, the challenging real estate market will negatively change the taxable value trends of recent years. Many communities saw modest declines in their 2008 taxable values, and if the downward trend in the housing market continues, the impact will be larger next year. How it will actually play out in each community and over what period of time remains to be seen. While each community will need to carefully determine the impact of the current environment on its budget, there are also several pieces of legislation in Lansing that will impact property taxes going forward. Examples include the following:

- House Bill 4215 (Public Act 96 of 2008) allows property owners to obtain two principal residence exemptions in certain situations. The bill was designed for situations where a homeowner has purchased a new home and is unable to sell the existing home. The dual exemption only applies if certain conditions are met (i.e., the property previously occupied is for sale, not occupied, not leased or available for lease, etc.).
- A series of bills were introduced in March 2007 as part of a package to stimulate home sales (House Bills 4440, 4441, and 4442). The lead bill of that package, House Bill 4440, establishes an 18-month moratorium on the “pop-up” or “uncapping” of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the time frame of the moratorium would continue to pay property taxes at the previous taxable value amount. The “pop-up” or “uncapping” of taxable value would be delayed until the property was sold or transferred in later years. House Bill 4440 actually passed the House in March 2007 and is currently in the Michigan Senate.

Many property owners continue to struggle with the concept that their individual taxable values actually increased during a time that overall property values - and even their individual property values - have fallen. As we all have relearned in recent months, that is a constitutional requirement that changed with Proposal A in 1994. It may be helpful to remember the principle behind Proposal A - its purpose was to disconnect taxable values from market value increases, and instead limit the growth in taxable values to the lesser of 5 percent or inflation, until that point that the property transfers ownership. Now that the market values are declining in many areas, Proposal A continues to stay disconnected, and allows the taxable value to increase by the lesser of 5 percent or inflation (up until the point that it reconnects with market values)

Fairly or not, this year, many property owners said it did not feel right when they saw their taxable value increase by inflation when market value did not. This has led to a discussion as to whether a third variable, called “change in market value,” needs to be added to the Proposal A formula. In what some are calling a “super cap”, the Proposal A formula to determine annual increases in taxable value (if property is not sold or transferred) would be the lesser of three components: inflation, change in market value, or 5 percent. Therefore, if the market value of the parcel was either flat or declining - even if the taxable value of the particular parcel was less than state equalized value - there would be no annual increase. The legislation putting this proposal before voters has passed the Michigan House but has not been sent over to the Senate. A change of this nature would impact local government budgets.

- As part of the changes to the single business tax last year and the introduction of the Michigan business tax, changes were also made to the calculation of tax rates applicable to industrial and commercial personal property taxes. As advertised, industrial personal property taxpayers received a reduction of the school operating mills (up to 18 mills) and the 6 mill state education tax. Commercial personal property taxpayers received a reduction of up to 12 school operating mills. However, if your community has a school district with “hold harmless” school mills, you must add back any hold harmless millage prior to computing the total mills to be levied. This may generate questions from commercial and industrial taxpayers.
- A Michigan Supreme Court case has changed how local governments can treat public service improvements by developers. Leading up to the court case, as private property owners or developers installed public service improvements (i.e., such as street lights, water and sewer lines, etc.) there was normally an increase in their property tax assessment. The Michigan Supreme Court upheld a Court of Appeals ruling that the installation of public service improvements does not constitute a taxable addition.

State-shared Revenue

The governor released her proposal of the State’s fiscal year 2009 budget (for the year ending September 30, 2009) originally in February 2008. Over the course of budget deliberations in the spring and early summer, the legislature further debated the level of the revenue-sharing funding, resulting in a compromise by the Senate and House to fund revenue sharing equal to the projected fiscal year 2008 (fiscal year ended September 30, 2008) amounts, plus provide an increase of 2 percent of the statutory portion of revenue sharing received in fiscal year 2007. This proposal was presented to the governor on July 25, and is awaiting her signature.

Here is a summary (in millions of dollars) of the revenue-sharing budget submitted to the governor:

| | FY 2007 Actual | FY 2008 Projected | FY 2009 Projected | % Change |
|----------------------------------|-------------------|----------------------|----------------------|-------------|
| Cities, villages, and townships: | | | | |
| Constitutional | \$ 666 | \$ 683 | \$ 676 | -0.99% |
| Statutory | 405 | 392 | 407 | 3.80% |
| Total to CVTs | 1,071 | 1,075 | 1,083 | 0.75% |
| Counties (statutory) | - | - | 2 | N/A |
| Total revenue sharing | \$ 1,071 | \$ 1,075 | \$ 1,085 | 0.93% |

While the projection is for an overall increase of 0.75 percent (for cities, villages, and townships), the impact will not be evenly distributed between all local units. Remember, the 2 percent increase is for the statutory portion only - not the constitutional portion. The intent is for the total revenue sharing (constitutional plus statutory) in fiscal year 2009 to equal the total of constitutional and statutory revenue sharing received in fiscal year 2008, plus an additional payment equal to 2 percent of the fiscal year 2007 statutory revenue sharing received by the local unit. That may mean that for those units (primarily townships) that now receive no statutory revenue sharing, total revenue sharing projected for fiscal year 2009 will be identical to the amounts received in fiscal year 2008. We are awaiting a final distribution table from the Michigan Department of Treasury.

The governor's proposed budget also included \$2.4 million to restore state revenue-sharing payments for the six qualifying counties that will exhaust their revenue-sharing reserve funds in fiscal years 2008/2009. As you may remember, a reserve fund was created for each county in 2005 when the State eliminated counties from the revenue-sharing program (remember, counties only receive statutory revenue sharing, not constitutional). In 2005, counties were required to phase in the early collection of winter property tax payments and to create a reserve fund with a portion of these monies. Counties have been drawing on their reserve funds to replace lost statutory revenue sharing. When the reserve fund is depleted, counties will then look to the State to re-enter the statutory portion of the revenue-sharing program. Prior to their elimination from the revenue-sharing program in 2005, counties statewide received approximately \$182 million annually.

It is encouraging that this budget funds revenue sharing at a higher level than last year. As counties have started to come back into the formula, the legislature has budgeted this as an additional payment, rather than one that reduces distributions to the other local units of government. To a great extent, however, actual revenue-sharing distributions will depend on the stability of the State's budget, as well as the actual level of state tax collections. In addition, we need to remember that the statutory formula expired in 2007 and a new, permanent formula has not been enacted - please remember to remind your state representatives of the importance of extending this legislation.

The table below details state-shared revenue for the City since 2003 broken out by statutory and constitutional portions.

| State Fiscal Year | Statutory | Constitutional | Total |
|-------------------|--------------|----------------|--------------|
| 2003 | \$ 1,557,387 | \$ 1,985,034 | \$ 3,542,421 |
| 2004 | 1,417,149 | 1,980,409 | 3,397,558 |
| 2005 | 1,240,600 | 2,010,629 | 3,251,229 |
| 2006 | 1,156,984 | 2,058,697 | 3,215,681 |
| 2007 | 1,117,909 | 2,063,590 | 3,181,499 |
| 2008 | 1,029,832 | 2,060,400 | 3,090,232 |
| 2009 est. | 1,091,066 | 2,054,144 | 3,145,210 |

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has \$1,091,066 at risk in its General Fund budget based on 2009 funding levels. In light of the current environment, we strongly encourage local governments to be conservative when budgeting or projecting the revenue-sharing line item.

Reminder - Change in Investment Act

Public Act 213 of 2007, adopted at the end of 2007, requires local governments to perform their investment reporting quarterly to the governing body. The investment of surplus monies by Michigan local governments is controlled by Public Act 20 of 1943. The Act previously required investment reporting annually. It is suggested that the required quarterly reports list investments by institution along with maturity dates and interest rates.

Recent Revisions to State Transportation Funding Program

Current legislation modified Act 51 to allow local governments to transfer monies from their Major Streets Fund to their Local Streets Fund at a level of 50 percent of annual major street funding received. In addition, greater than 50 percent can be transferred. However, the amended law requires that certain conditions be met to allow for a transfer in excess of 50 percent including the adoption of an asset management process for the major and local streets systems as well as a detailed resolution passed by the City. It is important to note that major street monies transferred for use on local streets cannot be used for construction but may be used for preservation. Current legislation also includes a pilot program that would allow for the combination of the Major Streets Fund and the Local Streets Fund if certain conditions are met.

Other Legislative Items

- As part of Michigan's new "Planning Enabling Act," many local governments will now be required to prepare an annual "capital improvements program." This new requirement is effective September 1, 2008. According to Public Act 33 of 2008, a planning commission, after the adoption of a master plan, shall annually prepare a capital improvements program of public structures and improvements. The law does allow that if the planning commission is exempted from this requirement, the legislative body shall prepare and adopt a capital improvements program or delegate this responsibility to the administration of the local unit for the ultimate approval by the legislative body. The law provides that the capital improvement program report public structures and improvements that, in the community's judgment, will be needed or desirable within the next six years. The law also requires that the public structures and improvements included in the capital improvements program be prioritized. Townships that do not either individually or jointly own or operate a water supply or sewage disposal system are exempt from this requirement. In general, Plante & Moran, PLLC strongly encourages the development of a capital plan. While the law is restricted to "public structures and improvements," we strongly encourage the inclusion of all capital assets - vehicles, machinery and equipment, office furnishings, etc. In addition, we feel the participation of the governing body (in addition to or instead of) the planning commission is good public policy.

This same public act added several other requirements of planning commissions, including annual reporting by the planning commission to the legislative body along with the mandatory creation of a master plan.

- Multiple bills are pending in Lansing that would make changes to investment laws governing Michigan communities. Changes have been proposed to add different types of investments to what is commonly referred to as “Public Act 20” which governs the investment of surplus operating monies. Changes are also being proposed to the laws governing the investment of retirement monies.
- A bill is pending in the Michigan Legislature regarding retainages held by governmental units. Retainages are a common method used by local governments in procurement, particularly in the area of construction contracts. The law change focuses on reducing the retainage amount that a local government could require and stipulate the payment of interest on these monies among other provisions.
- Efforts continue in the wake of the *Bolt* case to provide a means for local units of government to engage in rate making to finance the cost of utility operations, particularly that of storm water. Senate Bill 1249 has been introduced to address the tests included in the *Bolt* decision on whether a charge is really a fee or a tax.
- At the federal level, a 2005 law change continues to get more attention as its effective date approaches. As part of the Tax Increase Prevention and Reconciliation Act of 2005, a new mandate was introduced which will require any governmental entity spending more than \$100 million a year in goods and services to withhold 3 percent of government payments beginning in 2011. Governmental units subject to this requirement will also be subject to new reporting rules for applicable payments. Numerous groups - both public and private sector, including the U.S. Department of Defense - have expressed concerns on the cost and practicality of implementing this new mandate. A bill is pending in Congress to delay implementation by a year until January 2012.